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Santiago, Chile, 5-7 November 1976

THE EXPORT OF MANUFACTURES IN MEXICO AND ITS PROMOTION POLICY

Note: This is a translation of sections I, II, III and IV of the original Spanish document entitled "La exportación de manufacturas en México y la política de promoción".

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/4. Quantitative

/FOREWORD

FOREWORD

This document analyses Mexican experience in the export of manufactures, and belongs to a group of similar studies by CEPAL on a number of other Latin American countries. The conclusions of these studies and of the research done by IBRD for countries in other regions of the world will be discussed at a meeting organized jointly by the two institutions in November 1976.

The CEPAL Mexico Office was responsible for preparing this document, with the valuable collaboration of an ILPES staff member. Much of the information in it was supplied by the Instituto Mexicano de Comercio Exterior (IMCE), whose help was particularly important during the stages of defining and structuring the research outline. The Treasury Department and the Department of Industry and Trade were also helpful, particularly in respect of the data on the use of the various incentives which form part of the export promotion policy. Finally, co-operation was received from other official bodies connected with the other promotion policy instruments.

On problems of the supply for export and the workings of export consortia, the official data was supplemented by a series of interviews carried out by CEPAL with a selected group of businessmen so as to learn the users' view of the policies enforced.

Nevertheless, despite these efforts this document cannot be considered to represent an assessment of the collective or individual effectiveness of the instruments comprising official policy in this field. An assessment of this kind would have required more time as well as statistics, inter alia, on the fiscal cost, which were unobtainable. The appraisals are therefore somewhat subjective, but it is nonetheless felt that they provide useful matter for discussion at the meeting where the different kinds of promotion policy followed by the countries will be contrasted and analysed.

This study contains seven chapters on the following topics: the role of exports of manufactures in the overall context of the economy, with special reference to their contribution to the process

/of industrialization

of industrialization and their effect on the external sector; the factors on the demand side which affect exports of manufactures; supply characteristics and the production side of the problem; the promotion policy and its main instruments and institutions; the effects of the different multilateral or bilateral agreements entered into by Mexico on its exports of manufactures, as well as those of the Generalized System of Preferences; the modalities of external marketing; and, finally, because of its special features, international sub-contracting and official policy on it.

/I. EXPORTS

I. EXPORTS OF MANUFACTURES IN THE CONTEXT OF THE ECONOMY AND FOREIGN TRADE

1. General observations

This chapter contains a brief analysis of the results of official efforts to promote exports of manufactures, the role such exports have played in industrial development and their effect on the external sector. A sketchy reference to the process of industrialization itself and the course taken by economic relations with the rest of the world was considered necessary for this purpose. Next, in view of the well-known disequilibrium tendencies of the latter, the performance of exports of manufactures is contrasted with the process of import substitution, in order to show the effect of sales abroad on manufacturing production and the balance of payments.

With regard to exports, the main achievements are indicated, as well as the internal and external obstacles limiting them, and their destination is examined: these features provide at least a partial explanation of Mexico's trade deficits with almost all the regions with which it has a considerable degree of trade. In this connexion, it should be pointed out that the rapid growth of exports of manufactures witnessed over the last few years has been accompanied by a rapid growth of industrial imports, which has greatly increased the country's trade deficit.

It should be stated at the outset that the dynamic performance of exports has been linked with, firstly, a high degree of deliberate Government policy, supported by a complex, dynamic network of internal promotion institutions and instruments which also influences the external sector, and whose effects have mainly been felt by the medium- and small-scale traditional business sectors; and secondly, the expansion and creation of fresh productive capacity in leading sectors by transnational corporations which, while benefiting from such measures, base their export decisions on policies defined in a broader context.

/The "model"

The "model" of industrialization and development has given rise to import needs far in excess not only of the growth of exports, but also of the effects of the traditional import substitution process itself. These needs tend to be satisfied quite "fluidly", in contrast with the relatively "forced" nature of exports of industrial products.

Protectionism has certainly been at work, and has even begun to affect capital goods somewhat more severely; but the structure of domestic demand and its production counterpart, together with certain rigidities of supply, are leading to fresh and increasing import needs, particularly of inputs and equipment, and it would be difficult to cut back on the external purchase of these without jeopardizing the operation or development of the user activities. New import needs of consumer goods also arise: these are often basic, as in the case of certain foods. This is a first problem which weakens the strictness with which imports are held down. This is combined with the effect of the cautious handling of the protectionist system, with an eye upon the efficiency of production, prices and inflation control.

These remarks should not be construed as a criticism of protection or the management of imports: they are only intended to throw light on the relationship between the structural context of economic growth - particularly industrial growth - and the speed with which purchases abroad have been increasing.

In turn, exports of manufactures have faced serious difficulties. At the domestic level, the most serious problems are those of supply (availability, quality, cost, size or capacity of companies, etc.) with the result that a broad policy has had to be adopted, mainly in relation to fiscal and financial incentives. As may be seen in the relevant chapters, there are many other kinds of machinery, including programmes to offset imports of inputs by exports (for example, in the motor-vehicle industry). At the external level, apart from the latest slump in the world economy, the obstacles created by the importers, which often even affect international subcontracting, are

very well known; nevertheless, there are some grounds for optimism, in both the Generalized System of Preferences and the trade negotiations promoted by Mexico, particularly in recent years. The process of Latin American integration, more specifically LAFTA, has not produced results of any particular importance for Mexico. However, one may continue to believe that the achievements, while limited, are a good basis for bringing about more active trade, not to mention the changes LAFTA may make in order to reactivate the system. In any case, it may be assumed that sooner or later Mexico will be able to exploit more fully its position as neighbour to the biggest world market, the United States, on condition that trade frictions can be smoothed out and the supply problems solved.

As for the supply for export, there are a number of overall features which create more or less serious difficulties. In the first place, Mexican industry suffers in general from problems of cost, quality and technology or originality of design, particularly in the more "modern" and dynamic lines in international markets. Secondly, it is somewhat backward in some areas, such as the metal transforming branch, particularly with regard to capital goods: this prevents it from sharing more fully in trade, even within LAFTA. Furthermore, the Mexican subsidiaries of transnational corporations seem to be particularly oriented towards the domestic market, with export ratios which are generally low and not very different from those of local companies, while penetrating the more dynamic and modern industrial areas, among others. Finally, it is significant that some of the main programmes for the basic industries (steel, copper, fertilizers, paper and cellulose, cement, petrochemicals, etc.) view exports only as a sideline, either because of either trade problems or restrictions connected with real and financial resources. In other areas there are a very few exceptions to this kind of problem, although government policy is striving to change this approach limited to the domestic market. Serious efforts to this end are being made, for example, in connexion with the

/development of

development of the capital goods industries, which is where the authorities think some of the main limitations caused by the size of the national market originate.

2. Development and industrialization

The economic growth rate of Mexico has been relatively rapid. It should be noted, however, that this trend has been weakening over the last fifteen years. To a certain extent this slackening of pace is linked to the loss of dynamism of the agricultural sector, which is scarcely offset by the industrialization process, and to a lesser extent by the development of services and construction. Nevertheless, the slow loss of dynamism is widespread and unquestionably affects the manufacturing sector itself. (See table 1 and figure 1.)

Naturally, in recent years this decline in the growth rate has been partly due to the unfavourable world economic situation, which has besides channelled inflationary pressures into the country, where they combine with the pressures caused by domestic factors. Thus another element is the anti-inflation policy followed, one of whose effects is to prevent the public sector from stimulating the economy to the hilt. This is combined with the apparent contraction of private investment, at least in recent years, as a result of subjective factors and others such as the changes in taxes and rates, wage increases, speculation and difficulties with some domestic and imported raw materials and intermediate goods.

/Table 1

Table 1

MEXICO: GROSS DOMESTIC PRODUCT, 1960, 1964, 1970, 1974 AND 1975

(At 1970 market prices)

	Total	Agriculture a/	Mining b/	Manufacturing c/	Construction	Service
	A. Value (millions of pesos)					
1960	213.9	33.1	7.7	42.9	9.6	120.6
1964	284.0	39.6	9.9	61.0	13.7	159.8
1970	418.7	47.4	14.0	99.0	21.4	236.3
1974	527.6	50.0	17.9	127.6	29.4	302.9
1975	548.7			133.0	30.4	
	B. Growth (average rate, annual percentage increase)					
1960-1974	6.8	3.0	6.2	8.8	8.4	6.9
1964-1974	6.4	2.3	6.1	7.7	8.0	6.6
1960-1964	7.4	4.6	6.5	9.2	9.3	7.3
1964-1970	6.7	3.0	6.0	8.5	7.7	6.8
1970-1974	6.0	1.3	6.4	6.4	8.3	6.4
1974-1975	4.0d/			4.2e/	3.5f/	
	C. Structure (per cent)					
1960	100.0	15.5	3.6	20.0	4.5	56.4
1964	100.0	13.9	3.5	21.5	4.8	56.3
1970	100.0	11.3	3.3	23.8	5.1	56.4
1974	100.0	9.5	3.4	24.2	5.6	57.4
1975	100.0			24.2	5.5	

Source: CEPAL, on the basis of official figures of the Banco de Mexico, S.A.

Note: Because of rounding-off, the figures do not necessarily add up.

a/ Agriculture, including livestock, forestry and fishing.
b/ Mining, including extraction of petroleum.
c/ Manufacturing, including basic petrochemicals and refining of petroleum.
d/ Banco de Mexico, S.A., average preliminary estimate between 3.8 and 4.2 per cent.
e/ CEPAL, preliminary estimate.
f/ Banco de Mexico, S.A., preliminary estimate.

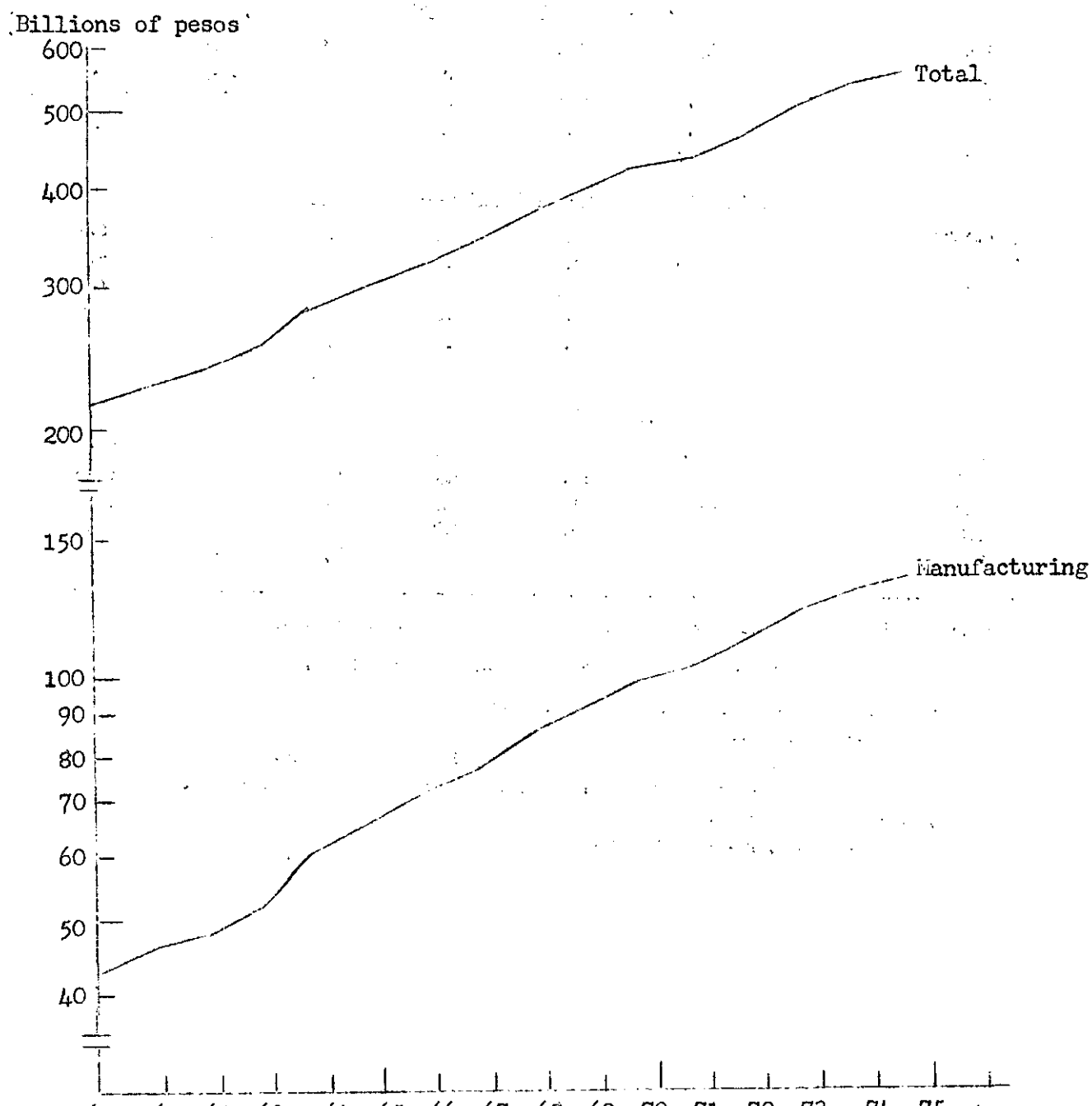
/Figure 1

Figure 1

MEXICO : TOTAL AND INDUSTRIAL GROSS DOMESTIC PRODUCT

(At 1970 market prices)

Semi-logarithmic scale



Source: CEPAL, on the basis of official figures of the Banco de México, S.A.

/This is

This is not the place for a detailed analysis of this problem. However, it should be pointed out that in addition to the short-term factors there are a number of structural determinants which help to explain the drop in the long-term rate of economic and industrial growth. In 1974, for example, the Banco de México, S.A., argued that the growth of domestic demand had come up against relatively lower growth of national production, due to inadequate rates in some sectors of production, and that therefore total imports had risen considerably, particularly of raw materials and semi-manufactures.1/ In addition, already in 1973 and again in 1974 CEPAL noted 2/ specific bottlenecks in the basic infrastructure (mainly electrical energy and transport) as well as in strategic inputs (particularly steel and petrochemical products), and emphasized the shortage of raw materials of domestic origin, including agricultural products and various industrial intermediate products, such as fertilizers, artificial fibres, metal products, aluminium and electrolytic copper. Futhermore, it is easy to see how cement became scarce and extensive in 1973 and 1974 when the economy was trying to recover from the slump of 1971.

Generally speaking, these bottlenecks and shortages cannot be attributed entirely to short- or even medium-term problems, although the growth programmes may possibly have been limited by the delay observed (1974) in receiving equipment from abroad.3/ It is rather a question of a widespread backwardness involving basic sectors of agriculture, infrastructure (although some programmes, such as highways, have been quite dynamic), industry and probably mining. These lags come to a head at a given period and become disruptive, limiting factors over and above those of a more

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1/ Banco de México, S.A., Informe anual 1974, p. 21.

2/ CEPAL, México: Notas para el estudio económico de América Latina, 1973 and 1974 (CEPAL/MEX/74/9/Rev.1, and CEPAL/MEX/75/10).

3/ México: Notas para el estudio económico de América Latina, op.cit.

short-term nature. Thus the Government has begun to revise its policies, paying greater attention to these aspects - including the manufacture of capital goods, one of the most striking weaknesses of Mexican industry - so as to lay the foundations for a more solid and sustained development in the future.

With particular reference to the manufacturing sector, other factors also enter into play.

While it is true that industry has grown at more or less high rates, these have been declining, as was pointed out above. Furthermore, "the process of industrialization has not been particularly strong if measured by the ratio between the rate of growth of manufactures and that of the economy as a whole".1/ While world trends show a quotient of about 1.5, Mexico's is an average 1.3 over the last 15 years; what is more striking is that this dropped to 1.1 in the last five-year period,2/ as a result of the sector's loss of dynamism. The degree of industrialization scarcely increased in this period, during which industry could not be viewed as a leading dynamic sector (see again table 1).

These facts are partly explained by the short-term factors and the bottlenecks and shortages pointed out above, but they must also be connected with two other phenomena, particularly bearing in mind that the loss of dynamism occurs in the long term. One is the social dimension of the domestic market for manufactures, which is not growing very dynamically,3/ apart from the fact that the general rate of economic activity is falling, which, since the income-elasticity

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1/ NAFINSA/CEPAL/ILPES: La política industrial en el desarrollo económico de México. Nacional Financiera, S.A., 1971.

2/ According to the figures in table 1.

3/ From the figures of the latest population census (1970) it appears that about 70 per cent of Mexican families had money incomes of below 1,000 pesos a month, so that they cannot be significant consumers of manufactures. Nevertheless, it is clear that the rapid process of urbanization is accompanied by a swelling of the ranks of the middle sectors, which become a large source of demand for manufactures.

/of the

of the demand for industrial consumer goods is greater than one, has a negative, cumulative effect on the rate of growth of the production of such goods, without taking into account the probable relative rises in prices above the wage increases. The other phenomenon is connected with the "model" of industrialization itself, which is characteristic of the majority of the developing countries: first, it is aimed primarily at the "apex" market, which is highly diversified and more sophisticated, thus implying diseconomies of scale and specialization, as well as generally higher needs of capital and foreign currency, and a relatively high social cost; secondly, the import substitution process grows more complicated both because of the innovations required in the apex market and because it must cover increasingly complex industrial fields, such as the production of capital goods. At the same time, and connected with these two phenomena, there is the inherent difficulty of following the technical progress generated in the developed world, which not only entails pressures on imports but also complicates decisions to undertake specific industrial activities, especially in the areas of intermediate and capital goods. Neither the acquisition of technology - in its various forms - nor the penetration of foreign companies can wholly solve the problem, or at any rate not in a timely manner and at a reasonable cost. In addition, there are well-known difficulties involved in unlimited technological dependence and a wide diffusion among different types of products, brands and plant, which works against economies of scale and specialization, especially in a relatively small market. The different preferences of consumers and, above all, companies in respect of processes and equipment leads to the same result.

The "model" thus produces a certain degree of inefficiency, and once this becomes widespread it again creates difficulties for decisions to add to the industrial productive structure with new production of intermediate and especially capital goods, where the import substitution process is supposedly at work, or should be working quite deeply. Problems of quality also arise, often in

/relation to

relation to cost objectives, not only with regard to the above-mentioned decisions, but also in connexion with the possibilities of exporting manufactures and escaping the excesses of the desire for self-sufficiency, inherent in the purely substitutional model. All this is added, as far as exports are concerned (to which the substitution process begins clearly to lose ground as of 1970), to unlimited technological dependence, which hinders the necessary specific differentiation of quality, types and/or costs and prices, not to mention, of course, the contractual questions which cutomarily hinder sales abroad.

While the model creates this kind of problem, there is simultaneously a rapid process of geographic concentration 1/ (at least until 1970), which, inter alia, tends to increase the cost of general and industrial development by generating diseconomies of agglomeration which substantially neutralize the advantages derived from industrial concentration. This phenomenon may perhaps also help to explain the slackening of the industrial growth rate in the long run, which, together with the decline already mentioned in connexion with agriculture, is affecting the two biggest sectors of the economy.

In the long term, the industrialization model has not lived up to the hopes originally placed in the development of the sector in terms of its contribution to employment. Although in the 30 years between 1940 and 1970 the share of manufacturing employment in total employment rose from 9 to 17 per cent, the absorption of labour by the industry began to slow down, and it is estimated that in 1975 it was not above 17.5 per cent. In the first decade the sector

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1/ According to an earlier study (Mexican Government/UNDP/CEPAL/ILPES: Proyecto de desarrollo regional y urbano de México, Desarrollo regional de la industria manufacturera, January 1974), between 1940 and 1960, i.e., in 20 years, the industrial importance of Mexico City grew by 4 percentage points, from 43 to 47 per cent, while in the following 10 years it grew by 6 percentage points: from 47 per cent to 53 per cent.

/absorbed 34

absorbed 34 per cent of the total increase in the labour force, during the second 21 per cent and between 1960 and 1970 only 16 per cent.1/ In 1975/1976 it was calculated that the industry was only absorbing between 20 and 21 per cent. Thus the occupational structure of the country in the present decade in no way resembles that of the industrialized countries (industrial employment of 30 per cent or more), even if the manufacturing sector were to grow at 9 or 10 per cent a year,2/ which did not occur (see again table 1).

These rather unsatisfactory results, which lead to the employment of some 2.5 million workers in the sector, are inherent in the model of industrialization. The substitution process, replacing imports by domestic production, tends to import manufacturing processes with higher productivity (in terms of product per worker) from the developed exporting countries, which is combined with the assimilation of technical progress and mechanization in existing activities. The concentration of production in increasing large establishments, displacing (at least relatively) small and artisanal industries, has the same effect, due to labour economies of scale. Industrial development also leads to greater density of capital, either through progress in the structure of production (basic industries, for example) or because the structure of domestic demand is largely tied to the more sophisticated apex market, as was pointed out earlier. These are some of the more obvious explanations, but to describe them this should not be construed as passing judgement upon them, for which other objectives besides employment would have to be taken into account.

In dynamic terms, the multiplier effects of employment caused by industrial growth have been dampened by the frequent imperfection of the technological chain, particularly because of the lack of production of capital goods.

1/ La política industrial en el desarrollo económico de México, op.cit.

2/ ILPES/CEPAL, unpublished study, April 1973.

/Nonetheless, Mexican

Nonetheless, Mexican industry has made significant progress in its productive structure (see table 2 and figure 2). It may be assumed that the greater importance of the intermediate (II) and metal working (III) industries has meant an increasing degree of national integration of the manufacturing processes, and that their dynamic capacity has increased as a result of the stronger technological links between inputs and products.

However, the loss of dynamism may also be seen in each of these three industrial groups: non-durable consumer goods (I), intermediate goods (II) and metal working (III). It is particularly striking in the last group, which is not surprising since this is precisely where the import substitution process runs into the greatest difficulties, particularly in the field of capital goods; it is also the area where it is perhaps most difficult to keep up with technical progress.

It may be seen from figure 2 that the stagnation of 1971 is followed by three years in which the metal-working group recovers its rate of earlier years. This recovery is almost entirely explained by the transport equipment and material industry,1/ particularly motor cars and lorries, which grew by 72 per cent and 82 per cent respectively between 1970 and 1974.2/ What is striking is that in the long term the transport equipment and material industry grew more steadily, at average rates of about 13 or 14 per cent per year, in contrast with the decline in the growth of the other industries in the metal working groups, which began in 1968 or even earlier (see figure 3). However, the indicators for 1975 show that in 1975 the trend did not continue for the motor-car industry; on the contrary, there seems to have been a sharp fall in the growth rate and a drop in motor-car production.

1/ The importance of the transport equipment and material industry within the metal working group rose from a little over 30 per cent to almost 40 per cent between 1970 and 1974 (CEPAL, on the basis of official figures of the Banco de México, S.A.).

2/ Banco de México, S.A., Indicadores económicos, December 1975. Vol. IV, Nº 1.

/Table 2

Table 2

MEXICO: THE INDUSTRIAL PRODUCT BY GROUP, 1960, 1964, 1970, 1974 AND 1975

(Gross domestic product at 1970 market prices)

	Industry	I[a]/	II[b]/	III[c]/
	A. Value (billions of pesos)			
1960	42.9	27.3	9.7	5.9
1964	61.0	36.4	14.0	10.6
1970	99.6	56.2	23.9	19.5
1974	127.6	69.1	32.6	25.9
1975	133.0			
	B. Growth (average rate, annual percentage increase)			
1960-1974	8.8	7.3	9.3	11.1
1964-1974	7.7	7.1	8.8	8.7
1960-1964	9.2	7.5	9.6	14.7
1964-1970	8.5	7.5	9.3	10.7
1970-1974	6.4	5.3	8.1	7.4
1974-1975 d/	4.2			
	C. Structure (per cent)			
1960	100.0	63.6	22.6	13.8
1964	100.0	59.7	23.0	17.4
1970	100.0	56.4	24.0	19.6
1974	100.0	54.2	25.5	20.3

Source: CEPAL, on the basis of official figures of the Banco de Mexico, S.A.

Note: Due to rounding-off, the figures do not necessarily add up.

a/ Food, beverages, tobacco, textiles, clothing and footwear, printing and publishing, leather and leather products, pharmaceutical products, soap and detergents, and perfumes and cosmetics.

b/ Wood and cork, paper and paper products, rubber, chemicals (basic petrochemicals, basic chemicals, synthetic fibres, fertilizers, others), non-metallic mineral products, basic metals and petroleum refining.

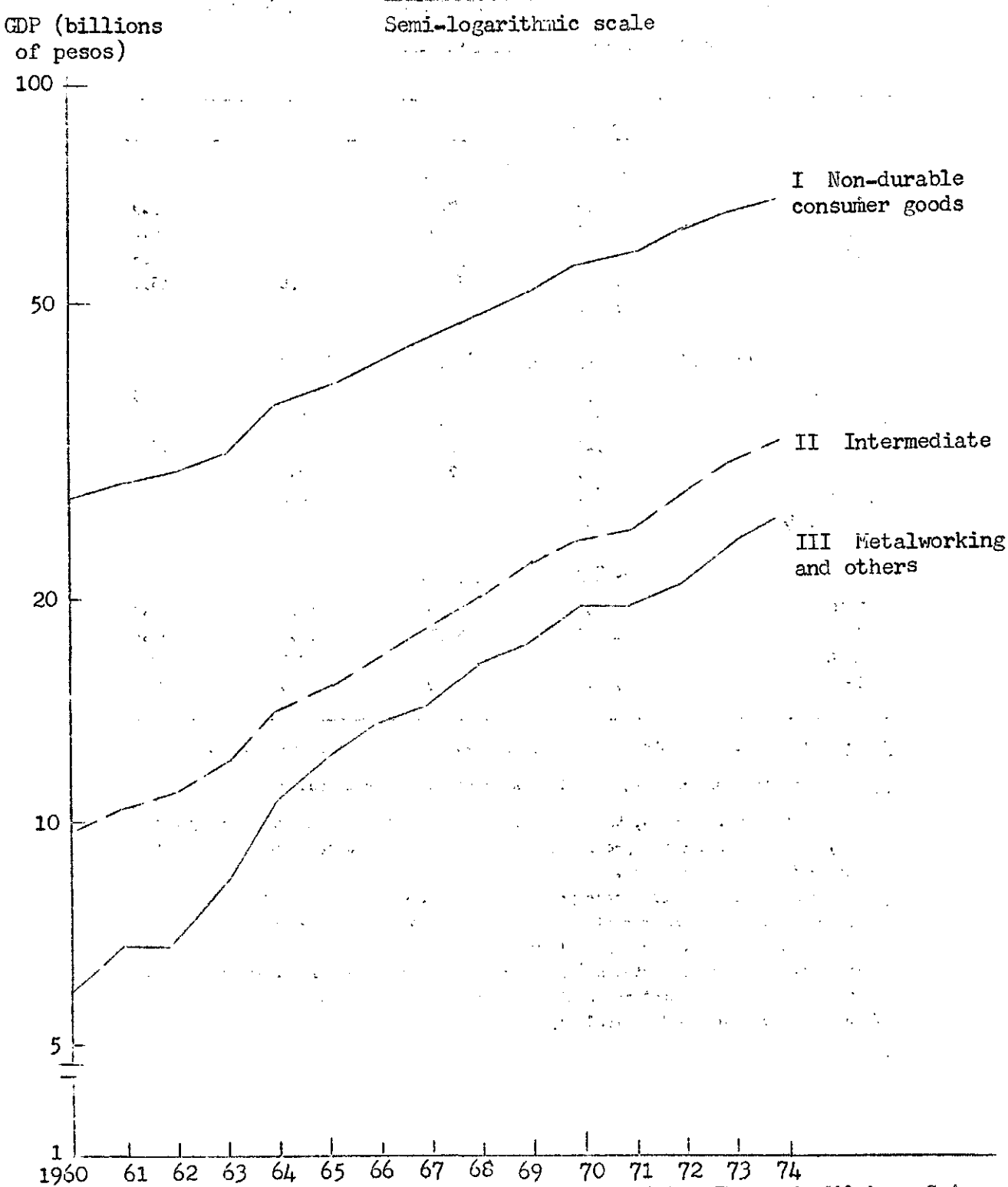
c/ Metal transforming industries (metal products, machinery, electrical machinery and equipment, transport material and equipment) and others.

d/ Preliminary estimate (see table 1).

/Figure 2

Figure 2

MEXICO : INDUSTRIAL PRODUCT BY GROUP a/
(At 1970 market prices)



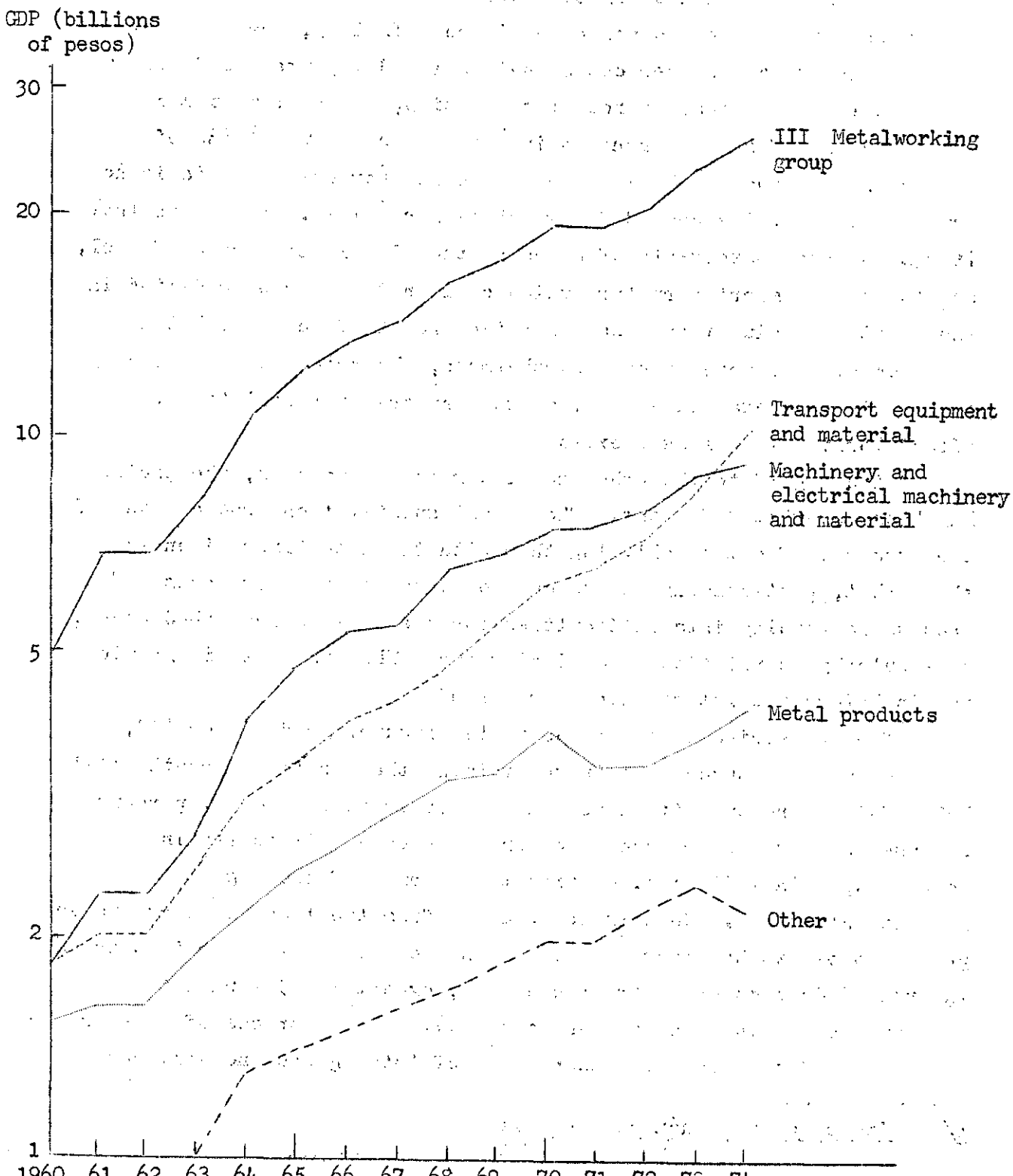
Source: CEPAL, on the basis of official figures of the Banco de México, S.A.
a/ See the definitions in table 2

/Figure 3

Figure 3

MEXICO : METALWORKING GROUP (III) AND ITS BRANCHES
(Gross domestic product at 1970 market prices)

Semi-logarithmic scale



Source: CEPAL, on the basis of official figures of the Banco de México, S.A.

/The development

The development of the motor-car industry was based on a domestic market in which purchasing power could grow under the stimulus of advertising, prices and credit, apart from the fact that the social distribution of income favoured certain classes and many purchasers could forego other expenditure. In 1975, lower overall economic growth and higher costs (national and imported) and prices were combined with some degree of saturation, at least temporary of the market (forward purchases in the face of expectations of higher prices) and a fall in external demand (exports). This is not true of lorries, the demand for which is more rigid, so much so that it was not even ostensibly affected by the rise in the price of fuel, due to the transport structure which could not easily be modified in the short or medium term. Not only the growth of services but also replacements are more fixed. Furthermore, the price rises caused by changes in the taxation system, as well as credit restrictions, affect lorries to a lesser extent.

With regard to the other metal working industries, the picture has been somewhat different. The import substitution process has had the greatest effect of all, together with the incentives given to the market, particularly in the case of durable consumer goods. The process is running into difficulties for the reasons described above, particularly in relation to capital goods. Thus the fall in growth set in before the latest five-year period.

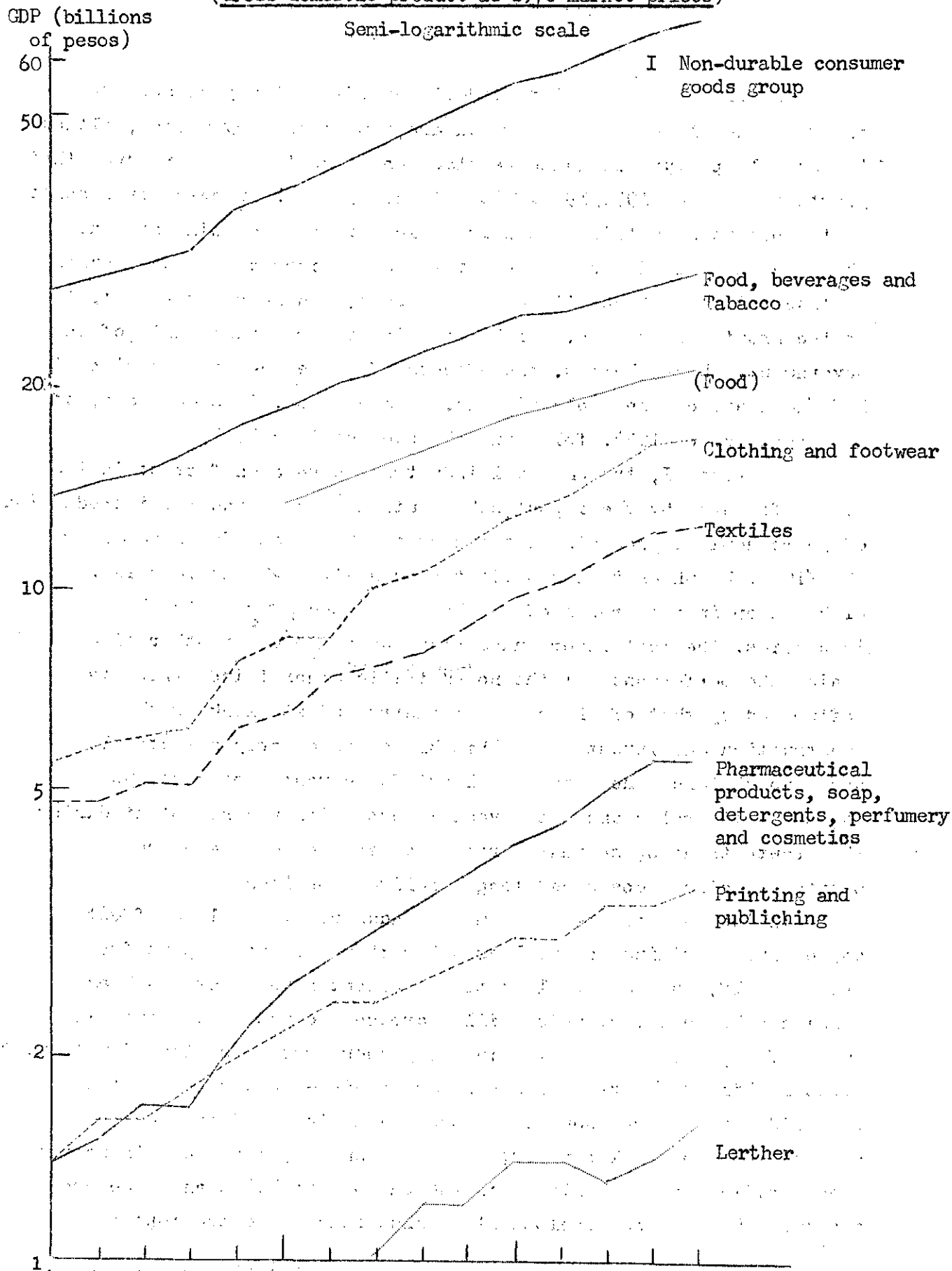
The industries of the non-durable consumer goods group (I), while being more successful in maintaining their rate of growth until 1970, fail to recover it subsequently (see again figure 2), perhaps because the huge lower-income sector has greater difficulty in keeping up with inflation, despite the efforts of the wage reajustment policy. Nevertheless, apart from the food industry (whose product seems to be under-estimated) on the whole the other industries in group I do recover their growth rate, except in 1974 when the economy once again flagged (see figure 4), and the prices of non-durable consumer products rise more than those of total goods and services.1/

1/ Indicadores económicos, op.cit.

/Figure 4

Figure 4

MEXICO : NON-DURABLE CONSUMER GOODS GROUP (I) AND ITS BRANCHES
(Gross domestic product at 1970 market prices)



Source: CEPAL, on the basis of official figures of the Banco de México, S.A.

/As for

As for the intermediate industries (II), it may be seen that they have developed at rates which are sometimes very varied, although the overall picture is quite regular, and also that they recover their growth rate after 1970/1971. (See figure 5.) The uneven performance of the products in this branch is indicative of the main lags and shortages described above. Thus the fluctuations of demand, caused by fluctuations in overall economic growth, had less severe effects on the growth programmes, which are often the responsibility of the Government. Nevertheless, the effects of the economic recession of 1970/1971 are on the whole visible, as are those, in some cases, of the recession of 1974, following the boom of 1972/1973.

In group II, the chemical industries developed fastest in the 1960s, fostered by the import substitution process and the introduction of petrochemical products on the market. This rate declines after 1969/1970, by which time substitution has already gone very far, with a drop in the growth of the basic and secondary petrochemical industries, the fertilizer industries and a number of other lines. Again, the performance of the non-metallic mineral industries is influenced by that of the cement industry and its links with construction and investment. This branch is clearly affected by the cycle which takes the form - at least for cement - of abundance together with reluctance to invest in expansion and new plant during the growth troughs, so that during the peak periods here are shortages, higher costs and longer delivery periods.

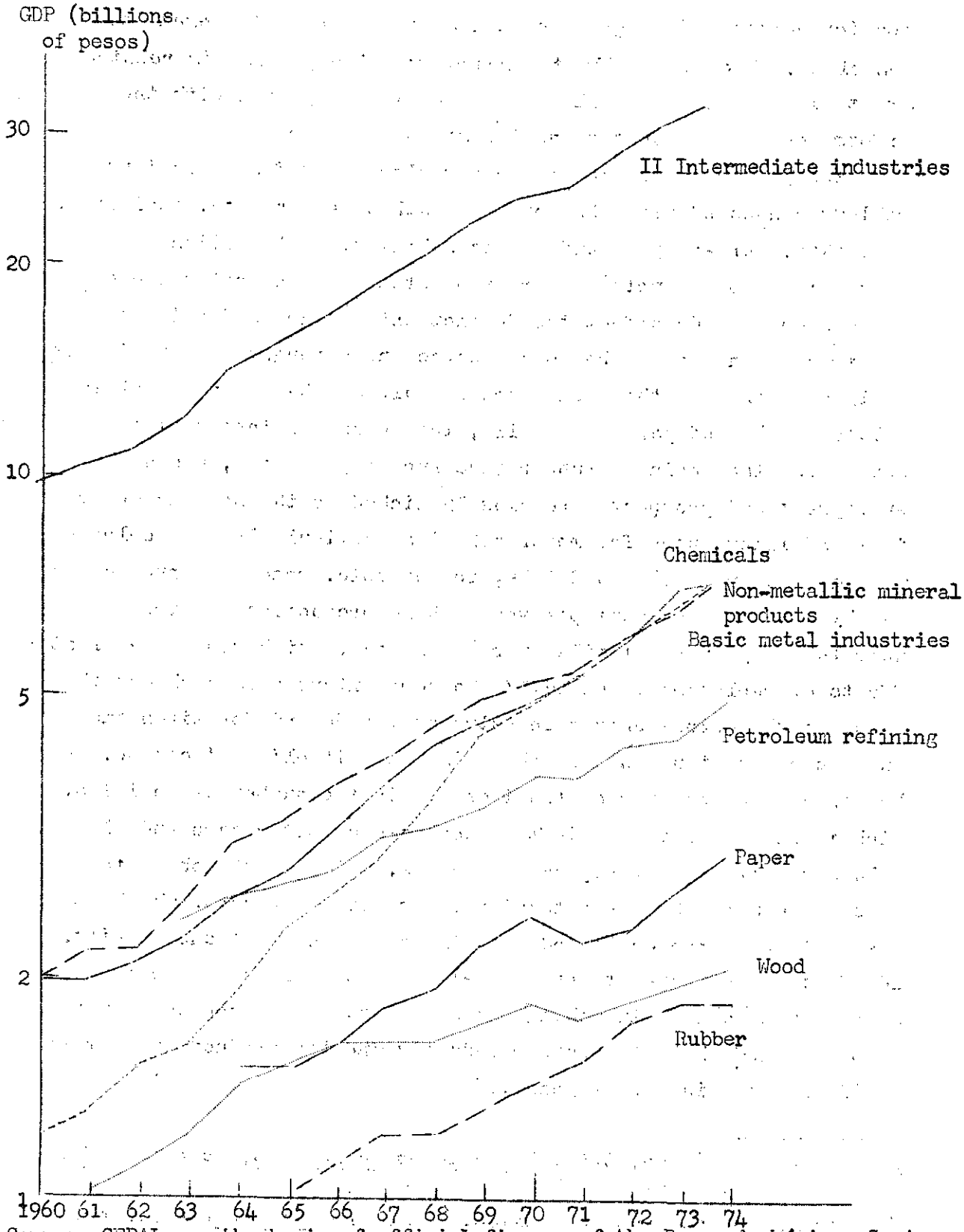
In the case of the basic metal industries, the lags affect copper and aluminium, as well as other steel products apart from steel itself, such as steel casting. Recent investment has been considerable, however, which will increase productive capacity in 1977. The petroleum refining industry shows more sustained development, directly linked to extraction and fuel needs - more regular because very widespread throughout the economy - as intermediate and consumption goods. The paper, cellulose and paper product industries grew rapidly and regularly until the end of the 1960s and recovered again in 1973. This development is also related to the import

/Figure 5

Figure 5

MEXICO : INTERMEDIATE INDUSTRIES (II) AND THEIR BRANCHES
(Gross domestic product at 1970 market prices)

Semi-logarithmic scale.



Source: CEPAL, on the basis of official figures of the Banco de México, S. A.

/substitution process

substitution process (paper and cellulose) where there is still room for action and progress continues to be made (for example, newsprint), which is partly the reason why the process is related more to investment possibilities in the industry than with the performance of the economy and the state of demand.

The wood industry is developing slowly and facing serious problems connected with the forests, both of an institutional nature (ownership, for example) and of accesibility, exploitation (harvesting, for example) and reafforestation. Naturally these problems can and do affect the development of the wood cellulose industries, since it is becoming scarce and expensive. This is also partly explained by the great boom in pulp as the raw material for celluloid pulp and paper. Finally, this group of intermediate industries also includes rubber (and rubber products), whose development and prospects are closely linked to the manufacture of tires and inner tubes for motor vehicles particularly for replacement purposes. Between 1967 and 1974, for example, motor-car production grew by about 14 per cent per year, while production of tires and inner tubes by only a little over 8 per cent, which shows the greater effects of replacement demand.1/ To some extent this cushions the impact of the motor-vehicle industry on the demand for tires and inner tubes and thus on the rubber industry itself. Of course, in the medium and long terms, the increase in the number of vehicles, which is linked to the production and sale of motor cars and also to losses, will affect replacement needs, which in the short term may be determined by the intensity of use of motor cars, which is to a certain degree connected with the prices of fuel and repairs, and of tires and inner tubes themselves. Some of these factors, together with delays in making replacements, may be connected with the slower growth of the rubber industry and the production of tires and inner tubes in recent years.2/

1/ Banco de México, S.A., Indicadores económicos, October 1975, Vol. III, Nº 11.

2/ Figure 5 and Banco de México, S.A., Indicadores económicos, op.cit.

/It should

It should be pointed out that the above analysis is primarily based on events until 1974, when there was once again a decline in overall economic growth, particularly that of the manufacturing sector. This trend appears to have grown worse in 1975 (see again table 1), and there must have been a widespread drop in the rate of industrial growth, and even some drops in production. The reason for this lies in the decline in the overall economic growth rate and in domestic and sometimes external demand, largely connected with the economic recession in the United States (exports of manufactures fell, as may be seen below in table 8), apart from the running down of stocks (built up with expectations of higher prices) and some bottlenecks such as those connected with electricity, which appear to have affected some industries and areas. However, according to the data of the Banco de México, S.A., by the second-half of the year the economic growth rate, including that of the manufacturing sector, had begun to recover.

3. Import substitution and exports of manufactures

One of the most explicit objectives of industrial policy for some time has concerned the role of manufactures in the external sector.

Initially the main concern was import substitution, in the form of such typical instruments as the series of "Lists of New and Necessary Industries" (1955, with much earlier forerunners) through which a series of incentives was offered to private investors. This policy has not been abandoned, of course, as clearly appears from the recent exhibition "Mexico, The Best Investment", pointing out the possibilities of producing within the country a large number of imported articles; or the waiveing of "Rule XIV" (1975), which facilitated the importation of industrial equipments while the substitution process was weak in the field of capital goods.

More recently there have been systematic efforts to transform the industry into an exporting sector. These were barely beginning in 1961, mainly with the limited use of subsidies relating to tax

/exemption and

exemption and financial assistance.1/ Subsequently these efforts were strengthened until a group of institutions had been established (co-ordinated by the Instituto Mexicano de Comercio Exterior, set up five years ago) combined with a complex, dynamic promotion policy and energetic international negotiations.

In about 1970 the import substitution model appears to give way to exports of manufactures, whose share of the industrial product rises to nearly 10 per cent in 1974 (see table 3). In the first place, export objectives acquire priority; secondly, the export sector becomes increasingly influential in the growth of the manufacturing sector.

The substitution process, which helped to make economic growth viable and has been the predominant factor in Mexican industrialization, was particularly strong in the 1960s, to the point that there was a clear drop in the "import ratio" of manufactures (see again table 3). However, this ratio begins to rise once again, which does not necessarily signify that the process has come to a halt, although it certainly has weakened, bearing in mind the observations in the previous sections, which also outline the probable causes.

Calculating in "real" terms, i.e., the values of the product and imports at constant prices (see table 4), it may be seen that this ratio has risen even more rapidly during the last few years,2/ until reaching a level close to that of 15 years ago. In addition, it may be seen that the level has risen in practically all the industrial branches.

1/ La política industrial en el desarrollo económico de México, op.cit.

2/ The prices of imports rose less than the prices implicit in the gross domestic product, between 1970 and 1974.

/Table 3

Table 3

MEXICO: INDUSTRIAL PRODUCT AND IMPORTS AND EXPORTS OF MANUFACTURES 1960, 1965, 1970 AND 1974

	1960	1965	1970	1974
	Value (billions of pesos)			
Industrial product a/	30.4	55.0	99.6	192.8
Imports of manufactures b/	12.2	16.2	27.5	66.1
Exports of manufactures c/	1.2	3.1	5.3	19.1
	Import and export ratios d/ (percentages)			
Imports of manufactures	41.1	29.4	27.6	34.3
Exports of manufactures	3.9	5.6	5.4	9.9

a/ Gross domestic product at market prices, for 1960, NAFINSA/CEPAL/ILPES, La política industrial en el desarrollo económico de México, (NAFINSA, publicación, 1971); for the following years, Banco de México, S.A., Informe anual, 1974, México City, 1975.

b/ For 1960 and 1965: La política industrial en el desarrollo económico de México, op.cit; for 1970 and after: CEPAL, on the basis of figures and tabulations (ISIC classification) of the Dirección General de Estadística.

c/ Exports of manufactures excluding international subcontracting activities. For 1960: La política industrial en el desarrollo económico de México, op.cit.; for 1965 and after: CEPAL, on the basis of figures and tabulations (ISIC classification) of the Dirección General de Estadística.

d/ CIF value of imports or FOB value of exports over the gross domestic product at market prices.

/Table 4

Table 4

MEXICO: GROSS DOMESTIC PRODUCT AND IMPORTS OF MANUFACTURES, 1970 AND 1974

Groups and branches	Value (millions of pesos, at 1970 prices)				Imports over products (percentages)	
	Product a/		Imports b/			
	1970	1974	1970	1974	1970	1974
Total	99 600	127 600	27 500	49 400	27.6	38.7
I. Industries of non-durable consumer goods	56 200	69 100	2 475	5 160	4.4	7.5
Food, beverages, tobacco	25 100	29 200	970	2 305	3.9	7.9
Textiles, leather, footwear and clothing	23 900	30 700	673	1 360	2.8	4.4
Printing and publishing	3 000	3 600	252	499	8.4	13.9
Pharmaceuticals, soaps, etc.	4 200	5 600	580	996	13.8	17.8
II. Intermediate industries	23 900	32 600	7 123	14 352	29.8	44.0
Wood	1 800	2 000	175	179	9.7	9.0
Paper and cellulose	2 400	2 900	1 210	2 138	50.4	73.7
Rubber	1 400	1 800	119	201	8.5	11.2
Chemicals	4 700	7 100	3 665	7 521	78.0	106.0
Non-metallic mineral products	4 800	7 000	287	396	6.0	5.6
Basic metal industries	5 100	7 100	1 131	2 648	22.2	37.3
Petroleum by-products	3 700	4 700	536	1 269	14.5	27.0
III. Metal-working industries	19 500	25 900	17 902	29 888	91.8	115.4
Metal products	3 900	4 200	1 555	2 417	39.9	57.5
Machinery and artefacts	2 900	3 200	6 801	11 577	234.5	361.8
Electrical machinery and equipment	4 500	6 100	3 394	5 643	75.4	92.5
Transport equipment and material	6 200	10 200	5 012	8 607	80.8	84.4
Other	2 000	2 200	1 140	1 644	57.0	74.7

Source: CEPAL, on the basis of figures and tabulations of the Dirección General de Estadística.

a/ Gross domestic product at market prices.

b/ Imports of manufactures, excluding those of subcontracting subsidiaries and frontier transactions. CIF values.

/The explanation

The explanation for this must be sought in various places. Firstly, Mexican industry is becoming more integrated in the international market, with a rapid rise in its exports, which is generally typical of countries which have reached a certain level of industrial development, and is often strengthened by the operations of the transnational corporations. Secondly, it should be borne in mind that certain inputs rise because of shortcomings or lags in domestic production and supply, inter alia, in food, pulp and paper, basic chemicals, petrochemicals, petroleum products and steel, together with specific incentives for certain purchases. Finally, there are the effects of the substitution process itself: as it embraces more complex fields, such as more sophisticated consumer goods or products of the metal-working group in general, it requires higher imports of inputs and equipment, inasmuch as insufficient emphasis is laid on vertical technological chains, which are inherently more difficult to establish in such fields.

In this connexion, it should be pointed out that the substitution process has not managed to reduce significantly the rigidity of imports of goods which stems from the great importance within the import structure of the value of "production goods" (intended for the operation and expansion of economic activities), which is in the order of 80 per cent (about 30 per cent for capital goods and 50 per cent for raw materials and intermediate goods in 1974, and 36 per cent and 44 per cent respectively in 1975).1/ This appears to be the result of the greater stress in the policy in this field on "horizontal" diversification of industry, so as to include more final products, rather than vertical technological chains, which involve the intermediate and capital goods.

This policy is reflected in the structures of production and of imports of manufactures created by the long, sustained process of industrialization. Thus, as we pointed out above, industrial production has undergone favourable changes, in the sense that its

1/ Calculations based on figures from the Banco de México, S.A., published provisionally in February 1976.

/linkages have

linkages have been improved, but much needs to be done to achieve a better vertical "equilibrium", which is the hallmark of more advanced industries. Imports of manufactures are concentrated precisely in products of the industries which predominantly produce intermediate goods (II) and the products of the metal-working industries (III), which involve a high proportion of capital goods, as well as a sizeable amount of intermediate products, including parts for final plants. Furthermore the import ratios of the domestic industries in question are still quite high. The most striking of all are those for chemicals and machinery and other mechanical products, where the value of imports of such products is greater than the gross domestic product of the domestic industries concerned. (See table 5.) These are, of course, activities where, if they are fully developed, the production of intermediate and capital goods, respectively, would predominate, so that these high ratios suggest a certain relative backwardness.

Although there is no call to stress the causes of the backwardness of the substitution process in these fields, it should be pointed out that apart from limiting the dynamic capacity of the sector, the model followed keeps it highly dependent on imports to operate and expand, and this affects the economy as a whole since the remaining activities require imports and equipment which are not produced in the country.

These remarks are intended to advocate not self-sufficiency but rather the idea of emphasizing technological linkages to the greatest possible extent, and probably with a certain degree of specialization based on more balanced foreign trade, in terms of both the balance of payments and the type of products traded. Industrial policy efforts in this direction have, of course, been significant, since these problems have been recognized and studied for many years; but they are relatively weak in comparison with the social, economic and technological features of the model of overall and manufacturing sector growth as described in previous paragraphs.

/Table 5

Table 5

MEXICO: INDUSTRIAL PRODUCT AND IMPORTS AND EXPORTS OF MANUFACTURES BY BRANCH OF ORIGIN, 1974

Groups and branches	Value (billions of pesos)			Structure (percentages) c/			Proportion of product (percentages) c/	
	Product a/	Imports b/ CIF	Exports b/ FOB	Product	Imports	Exports	Imports	Exports
Total	192.8	66.1	19.1	100.0	100.0	100.0	34.3	9.9
I. Industries of non-durable consumer goods	109.7	7.2	5.3	56.9	10.8	27.8	6.5	4.8
Food, beverages, tobacco	51.3	3.7	1.3 d/				7.1	2.5
Textiles, leather, footwear and clothing	45.5	1.7	3.3				3.7	7.2
Printing and publishing	5.3	0.7	0.4				13.2	7.5
Pharmaceutical, soaps, etc.	7.6	1.1	0.3				14.6	3.9
II. Intermediate industries	45.7	22.1	8.8	23.7	33.4	46.4	48.3	19.3
Wood	2.9	0.3	0.4				11.0	13.8
Paper and cellulose	5.5	3.0	0.1				54.5	1.8
Rubber	2.7	0.2	0.1				9.2	3.7
Chemicals	8.0	11.1	3.1				139.2	38.8
Non-metallic mineral products	9.0	0.5	0.7				5.5	7.8
Basic metal industries	11.0	4.1	3.1				37.2	28.2
Petroleum by-products	6.6	2.8	1.3				42.5	19.7
III. Metal-working industries	37.4	36.8	5.0	19.4	55.8	25.8	98.5	13.4
Metal products	9.0	3.6	0.7				39.6	7.8
Machinery and artefacts	4.6	14.6	1.1				318.5	23.9
Electrical machinery and equipment	6.9	6.2	0.7				90.0	10.1
Transport equipment and meterial	13.1	10.3	1.9				78.5	14.5
Other	3.8	2.1	0.6				56.4	15.8

a/ Banco de México, S.A., Informe anual, 1974.

b/ CEPAL, on the basis of figures and Tabulations (ISIC classification) of the Dirección General de Estadística. Sub-contracting industries excluded.

c/ Calculated with the figures in millions, so that the round figures do not necessarily give the same result.

d/ Excluding sugar and honeys.

/From a

From a rather rough calculation, it would appear that in the metal-working group (III) the direct imported component amounts to approximately 30 to 40 per cent of the gross value of production, as against under 20 per cent in the traditional non-durable consumer goods industries.1/ The metal-working group has grown fastest; it is obvious how industrial growth requires higher imports. In addition, the positive effect on the balance of payments of import substitution may be even smaller than these figures suggest, since indirect imports needs must also be considered, as well as payments for technology, know-how, etc., as the case may be, to factors abroad.

As far as internal dynamism is concerned, the model's properties are limited. It may be considered, for example, that given the imported component, the indirect effects on employment of the growth of the different industries are less than would be the case in better integrated economies. Again in rough terms, it may be calculated that, by unit of production the direct and indirect employment provided by the growth of the metal-working industry in Mexico is only in the order of 50 to 60 per cent of what it is in the United States; as against 75 per cent in the food and beverage industries, and 80 per cent for textiles and clothing.2/

Generally speaking, exports of manufactures have similar characteristics in their net effects on the balance of payments and the domestic stimuli they create. Nevertheless, they have made considerable progress, since although their value in 1974 was slightly under 30 per cent of the corresponding imports, it represented

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1/ The imported component includes the direct imports shown by foreign trade statistics with specific destination, as well as depreciation of equipment purchased abroad.

2/ The calculation is based on considering production increases equivalent to an extra employee, which call for input and capital goods, the production of which in turn creates further employment. The original method may be found in ILPES, Consideraciones sobre ocupación industrial, ILPES Staff Papers, Series II, Nº 8, Santiago, Chile, 1969.

51 per cent of exports of goods (21 per cent in 1965) and over a quarter of exports of goods and services (one seventh in 1965).1/

Over 70 per cent of the value of these exports is accounted for by products of the intermediate (II) and metal-working (III) industries, which include a number of industries with the highest export ratios, such as chemicals, base metals and machinery and other mechanical products, as well as some whose import ratios are higher. (See again table 5.) Thus there is a certain tendency for these factors to offset each other, particularly in the case of the metal-working industries, as may be seen from their export trends. (See table 6.)

In fact, apart from the growth of exports of manufactures at rates of 15 or 20 per cent or more annually (at constant prices) over the last 10 years,2/ it is the qualitative changes in them which are most striking. While the weight of traditional manufactures (I) grows only slightly, if at all, there is a sharp drop in that of intermediate articles (II), including base metal products, while the percentage share of the metal-working products more than quadruples. At the same time, this form of diversification of exports of manufactures is combined with another significant fact: singling out manufactures proper,3/ it appears that their share rose from 31 to 53 per cent of the total value of sales abroad of industrial products. (See table 7.)

1/ According to the figures in table 7.

2/ Calculations based on the figures in table 6.

3/ Manufactures proper, on the basis of the UNCTAD classification.

/Table 6

Table 6

MEXICO: EXPORTS OF MANUFACTURES, 1965, 1970 AND 1974[a]/

Groups and branches	Value FOB (millions of pesos, at 1970 prices)			Structure (percentages)			Average annual growth rate 1970-1974 (percentages)
	1965[b]/	1970	1974	1965	1970	1974	
Total	2 779	5 345	12 224	100.0	100.0	100.0	23.0
I. Industries of non-durable consumer goods	505	1 153	2 677	18.2	21.6	21.9	23.4
Food, beverages, tobacco	158	408	870	5.7	7.6	7.2	21.1
Textiles, leather, footwear and clothing	278	516	1 550	10.0	9.6	12.7	31.6
Printing and publishing, pharmaceuticals, soaps, etc.	69	229	249	2.5	4.3	2.0	2.4
II. Intermediate industries	2 066	3 143	5 729	74.3	58.8	46.9	16.2
Wood	75	115	220	2.7	2.2	1.8	17.6
Paper and cellulose	24	60	73	0.9	1.1	0.6	5.0
Rubber	4	17	50	0.1	0.3	0.5	36.5
Chemical	511	1 029	2 160	18.4	19.2	17.7	20.4
Non-metallic mineral products	135	204	587	4.8	3.8	4.8	30.3
Basic metal industries	1 088	1 277	2 245	39.2	23.9	18.4	15.2
Petroleum by-products	229	441	385	8.2	8.2	3.2	-3.3
III. Metal-working industries	208	1 049	3 818	7.5	19.6	31.2	38.2
Metal products	66	172	530	2.4	3.2	4.3	32.5
Machinery and artefacts	95	262	867	3.4	4.9	7.1	35.0
Electrical machinery and equipment	12	108	539	0.4	2.0	4.4	49.5
Transport equipment and material	16	334	1 487	0.6	6.2	12.2	45.2
Other	19	173	395	0.7	3.2	3.2	22.8

Source: CEPAL on the basis of information and Tabulations (ISIC classification) of the Dirección General de Estadística.

a/ Excluding exports of international subcontracting activities.

b/ The values, at 1965 prices, relate to a sample of 186 manufactured products whose value represents about 85 or 90 per cent of the total.

c/ Products included in the chemical industry. In 1974, at 1970 prices, such exports represent about 5% of Group I exports.

/Table 7

Table 7

MEXICO: STRUCTURE OF EXPORTS OF MANUFACTURES, 1965 AND 1974

(Percentages)

Industries of origin	1965			1974		
	Total manu-factures	Other manu-factures	Manu-factures proper	Total manu-factures	Other manu-factures	Manu-factures proper
Total	100.0	69.5	30.5	100.0	47.5	52.5
Non-durable consumer goods	100.0	40.9	59.1	100.0	25.9	74.1
Intermediate	100.0	84.8	15.2	100.0	81.9	18.1
Metal-working	100.0	2.4	97.6	100.0	4.1	95.9

Source: CEPAL, on the basis of official statistics.

/It should

It should be noted that the figures do not include the exports of the international subcontracting industries,1/ and thus they represent genuine industrial development in "spearhead" activities; but their limitations, in their effects on the balance of payments and internal dynamism, should be recalled. However, this does not negate the influence of the rapid growth of such exports on industrial growth, which is of course greater for the manufacturing activities with high export ratios (such as chemicals) or whose sales abroad grow more rapidly (like the whole metal-working group). It is also true, however, that the growth of exports of manufactures has been relatively costly in foreign exchange terms, which is why, once again it is important to look to vertical linkages, inter alia. Thus, for example, the "low economic density" usually attributed to the basic industries would be less if a good part of the equipment used was produced within the country, since this would save foreign exchange and generate additional employment and income. In this connexion it should be recalled that the products of these industries account for a high, albeit decreasing, share of the exports in question and that Mexico might perhaps recover its relatively good exporting position in such lines despite the fact that the programmes concerned appear to be somewhat behindhand, as was pointed out earlier.

To summarize, the policy for exports of manufactures has been successful, as shown by the quantitative and qualitative changes described above. The "exporting capacity" of the manufacturing sector certainly grew considerably. Nonetheless, the question must be raised, whether the relatively "forced" character of the exports in question, as well as the problems mentioned in the introduction to this chapter, give grounds to suppose that these trends will be maintained and that the industry will move forwards, in the sense of achieving a better integration of its processes and exploiting more fully the potential of exports (and of import substitution) for the external sector and development.

1/ Chapter VII deals specifically with international subcontracting.

/In this

In this connexion, it should be pointed that the policy for exports of manufactures has been based primarily on the priority attached to earning foreign exchange. For this reason, and taking into account the requirements in terms of costs and competitiveness, it is justified that the objectives connected with vertical improvement of the production processes are at least implicitly relegated to the background. However, when the use of instruments to promote industrial exports was begun more systematically in 1961, severe restrictions were established, some of them precisely on national inputs and the degree of transformation.1/ Subsequently, the promotion policy more clearly opted for the priority mentioned above, where the appearance of the subcontracting industries, for example, is striking.2/ In any event, most of the promotion instruments currently used contain regulations on the domestic component.

It is not surprising, therefore, that specific restrictions on supply - and sometimes demand - in the traditional (I) and intermediate (II) industries, particularly the basic ones, have had the effect of orienting exports of manufactures towards metal-working products (III), despite the fact that in general their imported components or payments to factors abroad are high. However, the promotion policy includes some specific precautions, such as that contained in the propensity to offset with exports the purchases abroad of the motor-vehicle industry.

In any event, the policy has other goals besides the priority attached to foreign exchange earnings, as is clear when negotiations are undertaken in connexion with the viability of industries for which the domestic market is too small and which, as in the case of capital goods, will contribute to structural improvements.

1/ La política industrial en el desarrollo económico de México, op.cit.

2/ Apart from exports, international subcontracting was linked to objectives relating to employment and the development of the country's northern frontier.

/Finally, in

Finally, in connexion with trends, it should be pointed out that in 1975 the value of exports of manufactures dropped by almost 30 per cent (see table 8), mainly as a result of the external slump. Since that crisis is clearly coming to an end, Mexico's ability to recover former export trends will depend essentially on supply, the promotion policy, progress in integration processes and the trade facilities it receives, particularly from the developed countries. Thus the Instituto Mexicano de Comercio Exterior considers that in 1976 industrial exports will pick up considerably, with a rise of about 22 per cent over the level of 1975. Above all, it is confident that there will be strong increases in sales of chemical products, textiles and metal-working products.1/

4. Balance of payments and direction of foreign trade

The balance of payments reflects some of the main features of the model of development and industrialization. The growing deficit in the external trade of manufactures, only partly offset by the surplus from "other products", international subcontracting, border transactions and services (including tourism), has led to a rapid rise in the current account deficit which, insignificant 15 years ago, amounted to 25 per cent and 40 per cent of the total value of exports of goods and services in 1974 and 1975 respectively. (See again table 8.)

1/ Instituto Mexicano de Comercio Exterior, Cinco años de comercio exterior (1971-1975), Mexico City, February 1976.

/Table 8

Table 8

MEXICO: BALANCE OF PAYMENTS, 1960, 1965, 1970, 1974 AND 1975

(Millions of dollars)

	1960a/	1965a/	1970b/	1974b/	1975b/
	A. Current account				
Exports of goods and services	1 224	1 700	2 349	5 523	5 371
Goods FOB	787	1 158	1 348	2 999	3 000
Manufactures c/	96d/	247	428	1 526	1 100e/
Other products f/	691	911	920	1 473	1 900
Sub-contracting (net balance)	-	-	81	443	446
Border transactions (net)	437g/	210	294	554	585
Services and "other headings"		332	626	1 527	1 340
Imports of goods and services	1 226	1 763	2 707	6 859	7 535
Goods CIF	1 186	1 560	2 327	6 057	6 580
Manufactures c/	976d/	1 295	2 200	5 288	
Other products	210	275	127	769	
Services and "other headings" h/	40	203	380	802	955
Balance on trade account	-2	-63	-358	-1 336	-2 164
Service payments on foreign capital (net)	-164	-297	-587	-1 222	-1 478
Balance on current account	-166	-360	-945	-2 558	-3 642
	B. Capital account				
Net external financing	166	360	945	2 558	3 642
Capital inflows	493	823	1 502	3 220	4 356
Amortization of capital and debts	-327	-463	-557	-662	-714

Notes: (1) All figures based on official information of the Banco de Mexico, S.A. The break-down of manufactures alone is based on tabulations of the Dirección General de Estadística.

(2) In the case of manufactures, the biggest differences with the figures of the Banco de Mexico are the exclusion of sugar and honeys, the inclusion of petroleum products and the break-down of the "not elsewhere classified" entry.

a/ Banco de Mexico, S.A., Informes anuales, 1960 and 1965.

b/ CEPAL, on the basis of figures of the Banco de Mexico, S.A.; Mexico: Notas para el estudio económico de América Latina, 1975 (CEPAL/MEX/76/7), February 1976.

c/ CEPAL, on the basis of figures and tabulations of the Dirección General de Estadística.

d/ La política industrial en el desarrollo económico de Mexico, op.cit.

e/ CEPAL, provisional estimate based on the first three quarters. Corresponds to the Banco de Mexico provisional figures excluding sugar and honeys and including petroleum products.

f/ Includes silver production, excluding for domestic industrial use.

g/ Tourism and net border transactions, plus braceros and "other entries".

h/ Includes imports of gold for industry.

/It is

It is true that industrial exports gain ground, since in 1960 they represented barely 10 per cent of the value of the corresponding imports, whereas in 1974 they had risen to almost 30 per cent. But the deficit in the trade of manufactures rose from about 900 to nearly 3,800 million dollars, for the reasons mentioned earlier, and also because of the higher economic "level", due to the price rises and the devaluation of the dollar. Measuring imports and exports of manufactures (whose prices rose by 34 per cent and 56 per cent, respectively, between 1970 and 1974) at constant 1970 prices, the deficit in 1974 amounted to a little under 3 billion dollars, which means that the price rise effect increased the deficit by almost 800 million dollars. Nevertheless, the deficit declined relatively, from 36 to 24 per cent of the industrial product, another reflection, in a way, of the success of the export policy and also of the improvement in the terms of trade of manufactures in recent years.

However, the financial problem of the economic relations with the rest of the world grew worse. Combining the negative balance on the trade account with the service of foreign capital (interests and profits), it may be calculated that the current account deficit also deteriorated rapidly, from under 14 per cent of the value of total exports in 1960 to 46 per cent in 1974 and 68 per cent in 1975. With the addition of amortization payments on capital and loans, in 1974 and 1975 the figures rose to nearly 60 per cent and 80 per cent of the value of exports of goods and services. Thus the trade problems created by the model of development and industrialization are aggravated by the problems stemming from the increasing use of foreign capital, either for balance-of-payments purposes or because of the need to supplement savings - especially public savings - or receive business and technological inputs. These trends were, of course, influenced by the hardening of loan terms during recent years.

In 1975 imports regained their relatively fluid character, supported by external financing, and their value rose by almost 700 million dollars despite restrictions, while the value of exports

/declined, largely

declined, largely because of manufactures which were more affected by the unfavourable external economic situation. (This decline would have been in the order of 500 million dollars if the value of petroleum exports had not risen from 120 to 460 million dollars.) This displays once again one of the structural problems mirrored in the balance of payments: an upturn in the economic growth rate and the creation of new public development programmes was enough to make imports of "investment goods" rise by almost 40 per cent, i.e., practically the same amount as the growth in the total value of imports of goods and services (665 million dollars), because of the high imported content of domestic investment, stemming from the sluggishness of the substitution process in that field. Naturally, and partly in connexion with the above, once again financial and economic problems and requirements arose, and led to a rise of 42 per cent in the "net outflow" of long-term capital (from 2,731 to 3,890 million dollars).1/

In addition, there were deficit trends in the balance of trade of goods with almost all areas of the world. (See table 9.) In 1975 the only positive balances were with CMEA, thanks almost entirely to trade with Cuba, the Andean Group and the Central American Common Market.

However, the stepped-up search for markets for Mexican products stemming from the unfavourable balance-of-payments trends and other development objectives, together with the admittedly limited functioning of LAFTA was reflected in a greater diversification of the destination of exports. Between 1970 and 1974 the United States lost

/Table 9 (concl.)

Countries and economic blocs									
Total									
Revaluation of exports									
Declared exports									
United States									
Canada									
Japan									
Subtotal									
European Economic Community (EEC) d/									
European Free Trade Association (EFTA) e/									
Council for Mutual Economic Assistance (CMEA) f/									
European countries and USSR									
Cuba									
Subtotal									
Latin American Free Trade Association (LAFTA)									
Andean Group h/									
Argentina									
Brazil									
Paraguay and Uruguay									
Central American Common Market (MCCA) i/									
Subtotal									

Table 9

MEXICO: EXPORTS AND IMPORTS OF GOODS, BY GEOGRAPHIC ORIGIN AND DESTINATION, 1965, 1970, 1974 AND 1975

Value (millions of dollars)								Exports - Imports (millions of dollars)				Structure according to destination and origin, respectively (percentages)							
Exports a/				Imports b/								Exports				Imports			
1965	1970	1974	1975	1965	1970	1974	1975	1965	1970	1974	1975	1965	1970	1974	1975	1965	1970	1974	1975
114	1 281	2 850	2 859	1 560	2 327	6 057	6 580	-446	-1 046	-3 207	-3 721					100.0	100.0	100.0	100.0
115	197	185	144																
999	1 084	2 665	2 715									100.0	100.0	100.0	100.0				
626	742	1 510	1 629	1 025	1 432	3 769	4 108	-399	-690	-2 259	-2 479	62.7	68.4	56.7	60.0	65.7	61.5	62.2	62.4
9	12	63	43	38	49	146	141c/	-29	-37	-83	-98	0.9	1.1	2.4	1.6	2.4	2.1	2.4	2.1
81	69	120	109	39	86	224	298	42	-17	-104	-189	8.1	6.4	4.5	4.0	2.5	3.7	3.7	4.5
716	823	1 693	1 781	1 102	1 567	4 139	4 547	-386	-744	-2 446	-2 766	71.7	75.9	63.5	65.6	70.6	67.3	68.3	69.1
62	81	347	258	306	462	1 065	1 091	-244	-381	-718	-833	6.2	7.5	13.0	9.5	19.6	19.8	17.6	16.6
28	16	50	40	60	128	182	192	-32	-112	-132	-152	2.8	1.5	1.9	1.5	3.8	5.5	3.0	2.9
60	3	26	39	6	6	14	24	54	-3	12	15	6.0	0.3	1.0	1.4	0.4	0.2	0.2	0.4
58g/	3	14	9	6	6	13	22	52	-3	1	-13	5.8	0.3	0.5	0.3	0.4	0.2	0.2	0.3
2	-	12	30	-	-	1	2	2	-	11	28	0.2	-	0.4	1.1	-	-	-	-
142	100	423	337	372	596	1 261	1 307	-223	-496	-838	-970	14.9	9.2	15.9	12.4	23.8	25.6	20.8	19.9
44	92	263	268	30	64	290	412	14	28	-27	-144	4.4	8.5	9.9	9.9	1.9	2.8	4.8	6.3
31	60	128	133	9	31	173	94	22	21	-45	41	3.1	5.5	4.8	5.0	0.6	1.3	2.8	1.4
7	14	40	36	8	14	44	211	-1	-	-4	-175	0.7	1.3	1.5	1.3	0.5	0.6	0.7	3.2
5	15	83	92	11	16	63	96	-6	-1	20	-4	0.5	1.4	3.1	3.4	0.7	0.7	1.0	1.4
1	3	12	5	2	3	10	11	-1	-	2	-6	0.1	0.3	0.4	0.2	0.1	0.1	0.2	0.2
15	21	78	82	-	3	8	19	15	18	70	63	1.5	1.9	2.9	3.0	-	0.1	0.1	0.3
59	113	341	350	30	67	298	431	29	46	43	-81	5.9	10.4	12.8	12.9	1.9	2.9	4.9	6.6

/		Exports - Imports (millions of dollars)				Structure according to destination and origin, respectively (percentages)							
						Exports				Imports			
974	1975	1965	1970	1974	1975	1965	1970	1974	1975	1965	1970	1974	1975
352	295	19	-49	-171	-48	7.5	4.4	7.8	9.1	3.6	4.2	5.9	4.5
102	...	15	-9	-24	...	2.4	1.5	2.9	...	0.6	1.1	1.7	...
71	58	-9	-16	-28	...	0.2	1.3	1.6	...	0.7	1.3	1.2	0.9
71	...	-2	-13	-26	...	0.6	0.3	1.7	...	0.5	0.7	1.2	...
115	...	15	-11	-73	...	4.3	1.4	1.6	...	1.8	1.1	1.9	...

Instituto Mexicano de Comercio Exterior, Cinco años de comercio exterior (1971-1975), February 1976.

er production, the latter being the reason why the totals do not agree with those in the balance of payments

activities.

nd, Italy, Ireland (from 1973) and the United Kingdom (from 1973).

a and Cuba.

e.

rael, Lebanon, Malaysia, Singapore and Sri Lanka.

The United States maintained or increased its exporting position towards Mexico, while Europe's share fell and imports from Japan showed relative increase, unlike Japan's imports from Mexico which fell markedly (see again table 9).

These differences in the geographical distribution of exports and imports have appreciable effects on the balances of the trade of goods. Thus, for example, when the United States purchased less in Mexico while selling more, the latter's deficit with the United States rose from 66 per cent of the total deficit to 70 per cent in 1974, only to drop again to 66 per cent in 1975 when United States imports rose again, the arithmetic result of the greater influence of the unfavourable external situation on European purchases in Mexico and the virtual stagnation of purchases by Latin America and the rest of the world. In any event, with a rise in European imports and a drop in their purchases, Mexico's deficit in that area fell from 47 per cent to 26 per cent of the total between 1970 and 1974-1975. In turn, the balance with Latin America (LAFTA and MCCA) switched to a deficit in 1975 - mainly as a result of high imports from Argentina - while there continued to be a surplus balance with the Andean Group and, as usual, the Central American Common Market.

What is most interesting to note is that the geographic distribution of exports coincides with an equally marked diversification of the products sold abroad. We have already pointed out the substantial increase in the importance of manufactures, as well as the striking change in the composition of external sales of industrial products, where new products, such as those of the metal-working industries, rapidly turned to foreign markets and manufactures proper gained ground. Thus the composition of exports changes together with geographic dispersion and the efforts to find new markets. This question will be studied in greater detail in the next chapter.

II. DESTINATION OF EXPORTS OF MANUFACTURES

1. General remarks

As noted in the previous chapter, exports of manufactures grew rapidly until 1974, particularly during the last few years. They dropped in 1975, true, but mainly because of the external slump, and it may be assumed from their recovery that they will again rise in 1976.1/ These trends are combined with notable changes in the structure of industrial exports, above all in favour of metalworking products, which reflects the progress made by industrialization, the creation of industrial links with other countries, both developing and developed, the Latin American integration process and the more vigorous demand for and trade in such manufactures in international markets; not to mention the export promotion policy and external negotiations.

This diversification of exports is also accompanied by an accompanying significant dispersion of external markets, although the United States continues to play a predominant role.

In this connexion, it would now be useful to examine more specifically the destination of the exports of these manufactures and some of the factors which affect their demand and composition. To do this, Mexican sales must be placed in the context of the world demand for manufactures,2/ and the effect of the integration processes and the influence of preferential treatment outside Latin America must be examined.3/ Again, the effects of domestic demand must be studied, both in relation to its potential as a source of support for exporting industries, and from the point of view of how it can limit the supply for export.4/

1/ Instituto Mexicano de Comercio Exterior (IMCE) Cinco años de comercio exterior (1971-1975), Mexico City, February 1976.

2/ This subject is discussed in a separate document.

3/ This subject is dealt with in Chapter V of this document.

4/ Chapter III is devoted to this point.

/2. Diversification

2. Diversification of products and markets

During the period 1965-1974 exports of industrial products show an overall diversification of market of destination. While the importance of the United States as a purchaser of Mexican manufactures (excluding subcontracting) falls from 72 per cent to 47 per cent in this period, Europe's importance triples, Canada's almost quadruples, that of Japan and the rest of the world doubles and the importance of the Latin American countries as a whole increases moderately, although that of the Andean Group and Argentina declines slightly. However, other trends are visible from an examination of manufactures proper. The United States continues to be the major purchaser, absorbing approximately 46 per cent of exports, Europe's share rises from 13 to 19 per cent, while Latin America, which in 1965 absorbed 26 per cent, accounted for only 19 per cent in 1974 (see table 10).

The United States continues to be the major purchaser, together with Japan (1974), however, whose purchases of primary products in Mexico are more important, compared with the other countries and blocks distinguished in table 10. The United States' share of total goods is higher than its share of manufactures (57 and 47 per cent respectively), which is true of no other country except Japan. A comparison of these percentages (table 10, penultimate two columns) show that the greatest relative purchaser of manufactures proper is Cuba, after Paraguay-Uruguay and Canada, followed by the Andean Group, the Central American Common Market, CMEA and ESTA, and finally the European Common Market, the United States and Japan.

In the long-term, imports of industrial products from Mexico by the United States are relatively sluggish (table 10, last column), comparable only to the Andean Group and the even weaker imports of the Central American Common Market and Argentina, whose purchases of manufactures in Mexico also declined. However, exports of industrial products were very vigorous towards CMEA (including Cuba), Brazil, EFTA, Paraguay and Uruguay and Canada, followed by the EEC, Japan and the rest of the world.

/Table 10

Table 10

MEXICO: TOTAL EXPORTS OF GOODS AND MANUFACTURES, BY GEOGRAPHIC DESTINATION, 1965 AND 1974 a/

	Millions of dollars						1974		Structure (percentages)					
	1965			1974			Proportion of manufactures in total exports (percentage)		1965			1974		
	Total		Manufactures proper	Total		Manufactures proper	Manufactures	Manufactures proper	Total		Manufactures proper b/	Total		Manufactures proper
	Goods	Manufactures		Goods	Manufactures				Goods	Manufactures		Goods	Manufactures	
Total	299	217	66	2 665	1 372	721	51.5	27.0	100.0	100.0	100.0	100.0	100.0	100.0
United States	626	156	31	1 510	640	336	42.4	22.2	62.7	71.8	46.1	56.7	46.6	46.6
Canada	9	2	1	63	52	31	82.5	49.2	0.9	1.0	1.0	2.4	3.8	4.3
Japan	61	1	1	120	14	10	11.7	8.3	0.1	0.5	1.1	4.5	1.0	1.4
Subtotal	716	159	33	1 693	706	377	41.7	22.3	71.7	73.4	49.0	63.5	51.4	52.3
European Economic Community (EEC) c/	62	14	8	347	251	109	72.3	30.3	6.2	6.6	12.1	13.0	18.3	14.5
European Free Trade Association EFTA d/	20	1	-	50	26	20	52.0	40.0	2.0	0.4	0.7	1.9	1.9	2.8
Council for Mutual Economic Assistance (CMEA)	60	-	-	26	16	12	61.5	46.2	6.0	-	-	1.0	1.2	1.7
European countries and USSR e/	58	-	-	14	8	5	57.1	35.7	5.8f/	0.2	-	0.5	0.6	0.8
Cuba	2	-	-	12	8	7	66.7	58.3	0.2	...	...	0.4	0.6	0.9
Subtotal	149	16	9	423	293	137	69.3	32.4	14.9g/	7.2	12.9	15.9	21.3	19.0
Latin American Free Trade Association (LAFTA)	44	25	10	263	198	104	75.3	39.5	4.4	11.4	15.1	9.9	14.4	14.5
Andean Group h/	31	16	7	128	94	59	73.4	46.1	3.1	7.3	10.0	4.8	6.8	8.1
Argentina	7	5	2	40	27	16	67.5	40.0	0.7	2.2	3.7	1.5	2.0	2.2
Brazil	5	4	1	83	70	29	84.3	34.9	0.5	1.8	1.1	3.1	5.1	4.0
Paraguay and Uruguay	1	-	-	112	7	1	58.3	8.3	0.1	0.1	0.2	0.4	0.5	0.1
Central American Common Market (MCCA) i/	15	8	7	78	56	34	71.8	43.6	1.5	3.7	11.1	2.9	4.1	4.7
Subtotal	59	33	17	341	254	139	74.5	40.8	5.9	15.2	26.2	12.8	18.5	19.2
Rest of the world	75	9	8	208	120	68	57.7	32.7	7.5	4.3	12.0	7.8	8.7	9.4

Source: Based on information and tabulations of the Dirección General de Estadística. Corresponds to the sample of 186 products.

a/ The structure of the destination of manufactures is calculated on the basis of a sample of 180 products representing 90 per cent of the total.

b/ Defined on the basis of the UNCTAD classification.

c/ Federal Republic of Germany, Belgium-Luxembourg, Denmark (from 1973), France, Holland, Italy, Ireland (from 1973) and the United Kingdom (from 1973).

d/ Austria, Norway, Portugal, Sweden and Switzerland.

e/ USSR, German Democratic Republic, Bulgaria, Czechoslovakia, Hungary, Poland, Rumania.

f/ Excluding exports of wheat and maize to Poland, this figure falls to zero.

g/ Excluding exports of wheat and maize to Poland in 1965, this figure falls to 9.1.

h/ Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela.

i/ Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

/The different

The different markets have varying characteristics in terms of the structure of their purchases of manufactures in Mexico. In the first place, attention should be drawn to the clear predominance, in exports to Canada and the EFTA and CMEA countries, of the more traditional products of the non-durable consumer goods industries, as a result of the fact that no inter-industry links of any particular importance have been made with those countries; this is also reflected in the little importance of their purchases of metalworking products. Of greater importance than the latter are the products of the intermediate industries, although for the most part they are semi-manufactures or basic products (see table 11).

The opposite is true of the purchases of the United States, where, although intermediate products are most important, the share of metalworking products is significant, particularly if measured in comparison with manufactures proper, of which they account for almost 50 per cent. Here it is obvious that, apart from the peculiarities of the market itself, there has been a certain amount of industrial "integration" based to some extent on the operations of the transnational enterprises with subsidiaries in the country. Japan is likewise predominantly an importer of intermediate products and non-durable consumer goods, although its purchases from metalworking industries are much more important than those of EFTA and CMEA, despite the fact that intra-industrial links with Mexico are few. Sales to the EEC are composed predominantly of intermediate products, while those of the metalworking industries are relatively small, although some industrial links have been improved, particularly with the Federal Republic of Germany in the motor-vehicle line. With regard to Latin America (LAFTA and MCCA), purchases of products of the traditional non-durable consumer goods industries are much smaller than those of the intermediate and metalworking industries, because the traditional manufactures are more developed in both countries, including Central America. Exports of intermediate semi-manufactures are relatively high to those countries, and even more so, on the whole, those of metalworking products, which points to the improvement of certain intra-industrial links, again based to some extent on the operations of the transnational corporations.

/Table 11

Table 11

S BY DESTINATION AND INDUSTRIAL GROUP OF ORIGIN, 1974

Structure by origin (percentage)			Manufactures proper							
			Value FOB (millions of dollars)				Structure by origin (percentage)			Manufactures over manufactures proper (percentages)
I	II	III	Total manufactures proper	I	II	III	I	II	III	
27.7	48.0	24.3	721.1	281.8	119.4	320.0	39.1	16.5	44.4	52.5
28.4	43.7	27.9	336.2	114.1	50.6	171.5	33.9	15.1	51.0	52.5
64.4	19.8	15.8	31.0	19.4	3.4	8.2	62.6	11.0	26.4	59.6
29.9	47.4	21.9	10.2	4.0	3.2	3.0	39.2	31.4	29.4	74.4
21.4	67.7	10.9	104.7	43.8	33.7	27.2	41.8	32.2	26.0	41.8
65.4	29.6	5.0	20.3	17.0	2.1	1.3	83.7	10.3	6.4	78.1
68.1	24.4	7.5	12.3	10.5	0.6	1.2	85.4	4.9	9.8	76.9
65.1	34.9	-	5.5	5.0	0.5	-	90.9	9.1	-	66.3
71.4	13.0	15.6	6.8	5.5	-	1.2	80.9	-	17.7	88.3
27.8	61.9	10.2	137.3	71.3	36.3	29.7	51.9	26.5	21.6	46.9
13.0	47.6	39.3	104.3	21.0	8.9	74.4	20.1	8.5	71.4	52.8
18.0	37.3	44.7	58.6	15.1	4.9	38.6	25.8	8.4	65.9	62.3
21.9	39.8	38.3	16.2	3.3	2.4	10.5	20.4	14.8	64.8	59.1
3.3	60.9	35.8	28.7	2.3	1.5	24.9	8.0	5.2	86.8	41.3
6.1	87.9	6.1	0.7	0.3	-	0.4	42.9	-	57.1	10.6
29.9	37.6	32.4	30.2	16.5	2.4	15.3	48.2	48.2	44.8	61.0
16.8	45.4	37.8	120.5	37.5	11.3	89.7	27.1	8.2	64.7	54.6
30.6	54.4	15.0	67.8	35.5	14.5	17.8	52.4	21.4	26.2	56.5
27.8	46.4	25.8								
-	-	-								

Corresponds to the sample of 186 products (excluding international subcontracting).

otwear, leather, printing and publishing, pharmaceuticals). II. Intermediate industries (wood, furniture, and petroleum products). III. Metal-working industries (metal products, machinery and other mechanical and various).

and, Italy, Ireland (from 1973) and the United Kingdom (from 1973); b/ Austria, Norway, Portugal, Sweden and Hungary, Poland and Rumania; d/ Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela; e/ Costa Rica, El Sal-

Thus the external demand for Mexican manufactures arises essentially from the deficits which occur in the external markets (mainly in the case of intermediate products, including both of the basic industries, and some non-durable and consumer goods) and from originality or comparative advantages in other lines (particularly in non-durable consumer goods industries). In addition, more recently the external demand for manufactures, particularly in the metalworking industry, derives from inter-industrial relations which are often linked to tansnational corporations. In some cases this demand takes the form of a simple distribution of some products, such as pharmaceutical and hormonal products. There is also the effect of competitiveness arising from the domestic promotion policy as well as from preferential treatment within and outside Latin America and more specific bilateral negotiations.

The most diversified and all-embracing demand for exports of Mexican manufactures comes from the United States, due to its proximity and the size and diversification of its markets stemming, from its high income level and advanced, complete production structure. In comparison with this market, the others appear relatively specialized in their purchases in Mexico. From an examination of the sale of manufactures proper to any country or block in excess of 400,000 dollars (1974), it appears that out of 87 entries, the United States purchases 73 while at the other extreme, CMEA purchases only 5 (see table 12). LAFTA purchases, while much lower, come closest to the diversification of United States purchases, particularly as a result of trade with the Andean Group, Brazil and Argentina. They are followed by the rest of the world and, at a greater distance, the Central American Common Market, Canada and the EEC, while the indices of diversification of exports of manufactures are particularly low for Japan, EFTA and CMEA.

Of course, these calculations suffer from a major flaw, because they do not consider, inter alia, the size of the markets and the influence of this matter on the amount of the different purchases. Nevertheless, the 400,000 dollar minimum would appear to be sufficiently low to avoid excessive errors of judgement.

/Table 12

Table 12

MEXICO: MAIN MANUFACTURES EXPORTED TO THE DIFFERENT COUNTRIES AND ECONOMIC BLOCS, 1974 a/

Industrial groups and products	United States	Canada	Japan	EEC	EFTA	CMEA	LAFTA	MCCA	Rest of the world
I. Non durable consumer goods (28)	24	8	3	4	6	2	8	2	16
Food, beverages and tobacco									
Pineapple in syrup or juice	X				Switzerland		Argentina		X
Strawberries (yarn or puree)	X								
Other preserved fruit	X								
Orange juice	X	X			Sweden				X
Preserved chilis	X								
Preserved asparagus	X				Switzerland		Venezuela		
Tomatoes (paste, puree or preserved)	X			Un.Kingdom					X
Preserved abalone and tuna	X								
Glucose (starch syrup)								X	
Food supplements	X								
Honeys and syrups	X	X							
Tequila	X	X							
Beer	X								
Other alcoholic beverages	X								X
Textiles, leather, footwear and clothing									
Cotton yarn and thread	X	X		X	Sweden	Poland and Cuba	Brazil		X
Synthetic fibre yarn and thread	X		X			Poland	Brazil	X	X
Cotton fabrics	X	X	X	X	Sweden and Switzerland				X
Synthetic fibre fabric	X								X
Clothing	X	X		X	Sweden				X
Footwear	X	X							
Leather: bags, wallets, etc.	X	X							
Printing and publishing									
Newspapers and periodicals	X						Andean Group	X	X
Books	X						Andean Group and Argentina	X	X
Pharmaceuticals									
Capsules, etc. containing medicinal substances	X		X					X	X
Medicaments for internal use	X						X	X	X
Injectable preparations							X	X	X
Medicines for veterinary use								X	
Prepared medicaments in doses								X	X

/Table 12 (cont. 1)

Table 12 (continued 1)

Industrial groups and products	United States	Canada	Japan	EEC	EFTA	CMEA	LAFTA	MCCA	Rest of the world
II. Intermediate (17)	16	4	4	5	1	1	7	3	8
Wood and furniture									
Baskets	X								
Brushes	X	X							
Wooden artefacts	X		X						
Wooden furniture	X								
Rubber									
Rubber artefacts	X						Andean Group	X	X
Chemicals									
Hormones	X	X	X	X	X		X		X
Casein products	X		X				X	X	
Empty gelatin capsules							X		
Lithographic plate activators	X								
Non-metallic mineral products									
Glass jars and bottles	X						Andean Group		X
Manufactured glass	X	X	X	X				X	X
Earthenware articles	X								
Onyx articles	X			X					
Sanitary fixtures and fittings	X								X
Petroleum products									
Gasoline	X						Colombia		X
Fuel oil	X	X		F.R.G. and Holland			Brazil and Uruguay		X
Diesel oil	X			F.R.G. and Holland		Poland			X

/Table 12 (cont. 2)

Table 12 (continued 2)

Industrial groups and products	United States	Canada	Japan	EEC	EFTA	CMEA	LAFTA	MCCA	Rest of the world
III. Metal-working (42)	33	6	1	6	1	2	26	10	14
Metal products									
Kitchen cookers	X							X	
Recipients	X						Brazil and Andean Group		
Taps and valves	X					Cuba	Brazil and Andean Group	X	X
Authomatic valves	X						Brazil and Andean Group		
Industrial moulds	X						Andean Group		
Iron or steal articles						Cuba			X
Aluminium articles	X						Andean Group	X	
Razor blades							Andean Group		
Zinc hexagons or discs							Colombia		
Stoves								X	X
Machinery and other mechanical products									
Internal combustion machinery	X	X							
Presses	X								
Machines driven by mechanical means	X						X	X	
Machines for industry, mining, etc.	X						X	X	
Textile machinery parts	X								X
Ball bearings, etc.	X			X					
Machinery parts	X						Brazil and Andean Group	X	X
Cash registers					X		X		X
Typewriters							X		X
Electrical machinery, equipment and material									
Telegraph equipment	X								
Air conditioners	X						X		
Electrical appliances and instruments	X						Andean Group		
Radio parts	X						Argentina and Brazil		
T.V. parts	X						Brazil and Andean Group		
Insulated cable	X						Venezuela	X	X
Equipment for distributing electricity	X						X		

/Table 12 (concl.)

Table 12 (concluded)

Industrial groups and products	United States	Canada	Japan	EEC	EFTA	CMEA	LAFTA	MCCA	Rest of the world
III. Metal-working (concluded)									
Transport equipment and material									
Motor cars for up to 10 persons	X	X		Fed.Rep.of Germany			Andean Group	X	X
Lorries							Andean Group	X	X
Body parts	X		X	Fed.Rep.of Germany			Brazil		
Parts to assemble bodies	X								
Motor vehicle motors	X	X					Venezuela		X
Ship and boat motors	X								
Parts for motors or transmissions	X	X		Fed.Rep.of Germany			X		X
Chassis parts	X						Andean Group (Venezuela)		
Unspecified vehicle parts	X								
Iron or steel springs	X								
Propeller-driven boats over 10 m.							Venezuela		X
Bodies				Fed.Rep. of Germany					
Various									
Silver sheets and plate	X	X							
Other silver manufacture	X	X							
Silver jewelry	X			X					X
Fotographic and cinematographic film and plates							Brazil and Andean Group		
Total entries (87)	73	18	8	15	8	5	41	22	38
Index (percentage)	100.0	24.7	11.0	20.5	11.0	6.8	56.2	30.1	52.0

Source: CEPAL on the basis of figures of the Dirección General de Estadística.

a/ Out of a sample of 106 products (excluding subcontracting) covering about 90% of the total value of exports of manufactures, manufactures proper were selected and those with sales of over 400 000 dollars to a country or economic bloc were noted. For each product, only purchases exceeding this figure are entered. In the case of the blocs, a country is specified if it is the only or the major purchaser. The classification corresponds to the General Export Duty List.

/The diversification

The diversification of sales to the United States, despite the restrictions which customarily affect them, is accentuated by the operations of United States' subsidiaries in Mexico, which tend to integrate certain production lines with the mother companies, as is suggested by the metalworking headings (parts and motors). This is also suggested by the exports towards the Federal Republic of Germany in the motor-vehicle lines, as mentioned earlier, but only to a small extent by Canada and Japan, and very little, if at all, in the case of EFTA and CMEA. A certain level of industrial integration is suggested with the rest of the world, but not with the Central American Common Market, which tends instead to purchase final goods because of its lower level of industrialization. In sum, the process of industrial integration mentioned above seems to occur with the United States, the EEC and LAFTA, and is usually influenced by the transnational corporations. In any event, this would help to explain to some extent the sizeable increase in exports of manufactures in recent years, in which it is precisely the products of the metalworking industries which predominate, as we have seen.

Attention should be drawn to the fact that, in general, the manufactures selected (see again table 12) do not individually possess such diversified markets. None of the 87 entries is sold to all the countries and blocks (or at least not for values of over 400,000 dollars) The greatest geographical diversification is in textiles (yarns and thread, particularly), hormones, glass and the motor-vehicle industry. Furthermore, some countries predominate within the economic blocks: the Federal Republic of Germany in the EEC; Sweden and Switzerland in EFTA; Cuba and Poland in the CMEA; Brazil, and to a lesser extent Argentina in LAFTA, excluding the Andean Group; and Guatemala in the MCCA. For these reasons, among others, the efforts to continue the process of geographical dispersion of exports of manufactures (shown by the overall figures) are important, in order to add to the results stemming from the operation of companies which tend to be integrated in the international setting but are located in a small number of countries.

/These results

These results are nevertheless very significant. Great changes appear from a comparison of geographical and export diversification in 1965 (see table 13) and 1974 (see again table 12). While in 1965 EFTA and CMEA purchased **none** of the 87 selected entries in amounts over 230,000 dollars,1/ in 1974 they purchased 8 and 5 respectively, which represents 11 per cent and 7 per cent of the number of entries of the United States, whose number of entries also increased substantially. In turn, Japan, Canada, the EEC, LAFTA and the rest of the world considerably increased their relative indices of diversification of purchases in Mexico; only that of the Central American Common Market dropped, in comparison with the United States.

The diversification of export products is even more notable. Let it suffice to point out that the number of entries purchased by the United States rose from 28 to 173, i.e., from 32 per cent to 84 per cent of the total of 87 headings considered. Furthermore, in 1974 exports to LAFTA and the rest of the world were more diversified than those to the United States in 1965. The many blanks of 1965 (see again table 13) tended to be filled in 1974 (see again table 12), which is representative of the access to more markets and the diversification of export products. The latter, as has already been pointed out, is linked with the process of industrialization and also with the trend towards stronger inter-industrial links, as is clear in the metalworking lines.

It is worth paying a little closer attention to the metalworking group, since it has had considerable influence on the growth and geographical and product diversification of exports of manufactures, as is typical of the overall features of world trade during the period under consideration.

1/ A minimum of 230,000 dollars instead of 400,000 (1974), was set for 1965, taking into account the variation in the average price index of exports of Mexican manufactures between the two years.

/Table 13

Table 13

MEXICO: MAIN MANUFACTURES EXPORTED TO THE DIFFERENT COUNTRIES AND ECONOMIC BLOCS, 1965[a]

Industrial groups and products	United States	Canada	Japan	EEC	EFTA	CMEA	LAFTA	MCCA	Rest of the world
I. Non-durable consumer goods (28)	13	1		1			1	4	7
Food, beverages and tobacco									
Pineapple in syrup or juice	X	X		Fed. Rep. of Germany					X
Strawberries (yarn or puree)	X								
Other preserved fruit	X								
Orange juice	X								
Preserved chilis	X								
Preserved asparagus									
Tomatoes (paste, puree or preserved)	X								
Preserved abalone and tuna	X								
Glucose (starch syrup)									
Food supplements	X								
Honey and syrups									
Tequila									
Beer	X								
Other alcoholic beverages									X
Textiles, leather, footwear and clothing									
Cotton yarn and thread	X								
Synthetic fibre yarn and thread									
Cotton fabrics	X								
Synthetic fibre fabric									
Clothing	X								
Footwear	X								
Leather: bags, wallets, etc.									
Printing and publishing									
Newspapers and periodicals									
Books	X						Andean Group and Argentina	X	X
Pharmaceuticals									
Capsules, etc. containing medicinal substances								X	X
Medicaments for internal use								X	X
Injectable preparations									X
Medicines for veterinary use									
Prepared medicaments in doses									

/Table 13 (cont. 1)

Table 13 (continued 1)

Industrial groups and products	United States	Canada	Japan	EEC	EFTA	CMEA	LAFTA	MCCA	Rest of the world
II. Intermediate (17)	9		1	1			1	4	2
Wood and furniture									
Baskets	X								
Brushes	X								
Wooden artefacts	X								
Wooden furniture									
Rubber									
Rubber artefacts									
Chemical									
Hormones	X			F.R.G. and Holland			Argentina and Brazil	X	X
Casein products									
Empty gelatin capsules									
Lithographic plate activators									
Non-metallic mineral products									
Glass jars and bottles							Guatemala and Nicaragua		
Manufactured glass	X								
Earthenware articles	X								
Onyx articles									
Sanitary fixtures and fittings									
Petroleum products									
Gasoline									
Fuel oil	X								X
Diesel oil	X		X						

/Table 13 (cont. 2)

Table 13 (continued 2)

Industrial groups and products	United States	Canada	Japan	EEC	EFTA	CMEA	LAFTA	HCCA	Rest of the world
III. Metal-working (42)	6			2			7	4	3
Metal products									
Kitchen cookers									
Recipients	X						Argentina and Andean Group		
Taps and valves									
Authomatic valves									
Industrial moulds									
Iron or steal articles	X						Andean Group	X	
Aluminium articles									
Razor blades								Guatemala	
Zinc hexagons or discs								El Salvador	
Stoves								Guatemala	X
Machinery and other mechanical products									
Internal combustion machinery									
Presses				Belgium-Luxembourg			Peru and Venezuela		
Machines driven by mechanical means	X						Andean Group (Ecuador)	Guatemala	
Machines for industry, mining, etc.							Andean Group (Perú)		
Textile machinery parts									
Ball bearings, etc.									
Machinery parts	X			X			Brazil and Andean Group		X
Cash registers									
Typewriters									
Electrical machinery, equipment and material									
Telegraph equipment									
Air conditioners									
Electrical appliances and instruments									
Radio parts	X								
T.V. parts									
Insulated cable									
Equipment for distributing electricity									

/Table 13 (concl.)

Table 13 (concluded)

Industrial groups and products	United States	Canada	Japan	EEC	EFTA	CMEA	LAFTA	MCCA	Rest of the world
III. Metal-working (concluded)									
Transport equipment and material									
Motor cars for up to 10 persons									
Lorries									
Body parts									
Parts to assemble bodies									
Motor vehicle motors									
Ship and boat motors									
Parts for motors or transmissions									
Chassis parts									X
Unspecified vehicle parts									
Iron or steel springs									
Propeller-driven boats over 10 m.							Andean Group (Chile)		
Bodies									
Various									
Silver sheets and plate									
Other silver manufacture									
Silver jewelry	X								
Fotographic and cinematographic film and plates									
Total entries (87)	28	1	1	4	-	-	9	10	12
Index (percentages)	100.0	3.6	3.6	14.3	-	-	32.1	35.7	42.9

Source: CEPAL, on the basis of figures of the Dirección General de Estadística.

a/ Out of a sample of 186 products (excluding subcontracting) covering about 90 % of the total value of exports of manufactures, manufactures proper were selected and those with sales of over 400 000 dollars to a country or economic bloc were noted. For each product, only purchases exceeding this figure are entered. In the case of the blocs, a country is specified if it is the only or the major purchaser. The classification corresponds to the General Export Duty List.

/Wile metalworking

While metalworking exports have been the most dynamic, imports of this type of product have also grown rapidly. Thus between 1970 and 1974 the value of sales of the group rose from 84 to 305 million dollars at 1970 prices (see again table 6), and the value of such imports rose from 1,432 to 2,391 million dollars, again at 1970 prices (see again table 4), at average cumulative rates of 38 per cent and 14 per cent annually, respectively. Obviously, exports gained ground, although the deficit rose from 1,348 to 2,086 million dollars at 1970 prices, or 2.544 million dollars at current prices (see again table 5), which represents about 70 per cent of the deficit in the trade of manufactures. Besides, the import ratio of the metalworking group (imports over product) rose by 26 per cent (see again table 4), since production was unable to keep up with the demand created by the growth of the economy and of the group itself, including its own exports (imported components).

Reference has also been made to the important role of transnational corporations in metalworking exports.

It is calculated 1/ that in 1973 total exports of manufactures (excluding subcontracting) by the transnationals represented 34 per cent of the corresponding national total, or some 350 million dollars; but at the same time, the imports of such companies generated a trade deficit of almost 600 million dollars, the equivalent of over one-third of the national deficit. This is due to the imported component in the production and investment of the transnational corporations, and the circumstances that the operation of such companies is basically oriented towards the domestic market. The transnationals of the metalworking group in 1973 accounted for 65 per cent of the total deficit of that group, and up to 80 per cent including the companies in the chemical industry.2/

1/ Fernando Fajnzylber and Trinidad Martínez Tarragó, Las empresas transnacionales, expansión á nivel mundial y proyección en la industria mexicana, Fondo de Cultura Económica, Mexico City, 1976.

2/ Ibid.

/Thus the

Thus the export of manufactures is of relatively little importance for the Mexican subsidiaries, in comparison with the proportion of production intended for the domestic market. In 1970 their export ratios (exports over the gross value of production) were low, less than 3 on average and not much higher within the metalworking group, although with notable exceptions in the case of some specific products. This figure is not very different from that of the domestic companies, whose export coefficient in the same year was on average 2.5.1/

Although more recent information is not available on these questions, the above figures and conclusions justify stressing that the transnationals (the very companies which in general have the greatest importance in the more dynamic industrial fields) should change their attitude in the interest of broader export objectives. Naturally, this does not obviate the need for a similar policy in the case of the domestic companies.

3. Exports of manufactures in the context of the LAFTA integration process

Mexico's trade in goods with the LAFTA countries has been growing more rapidly than with the rest of the world as a whole, from the standpoint of both exports and imports. The former grew from a little over 4 per cent to almost 10 per cent during the last ten years, while imports rose by nearly 2 per cent to 5 or 6 per cent, with exports running at 260 or 270 million dollars and imports at about 400 million (see again table 9).

Thus although trade within LAFTA increased, Mexico had deficits, especially in 1975, when imports from Argentina were high. However, the deficit did not exceed 1 per cent or 4 per cent of the total in 1974 and 1975; i.e., its importance is relatively less than with the rest of the world, bearing in mind that trade in goods with the LAFTA countries has been more important than with the rest of the world (see again table 9). This means, among other things, that Mexico's

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1/ Las empresas transnacionales, expansión a nivel mundial y proyección en la industria mexicana, op. cit.

/trade position

trade position with those countries has been better than with the rest of the world, especially in the case of the United States, although at an incomparably lower level in the case of the latter.

Exports of manufactures to those countries have also grown more rapidly, from 11 or 12 per cent in 1965, to 14 or 15 per cent in 1974, at a faster rate than with the United States, but lower than with Canada and the countries of the EEC, EFTA and CMEA (see again table 10).

In this respect it should be borne in mind that this greater dynamism stems almost entirely from trade with Brazil, and that trade with the Andean Group and Argentina was below average, and their position as importers of manufactures from Mexico declined. Nevertheless, the Andean Group countries as a whole, and Argentina, Brazil and Paraguay-Uruguay, had high percentages of manufactures in their purchases from Mexico, much higher than those of the United States and Japan, somewhat lower than those of Canada and the same or higher than those of the European countries belonging to the EEC and EFTA, although a little lower, in the case of manufactures proper, than that of CMEA, due to the effects of trade with Cuba (see again table 10).

To summarize, exports of manufactures to the LAFTA countries have been more dynamic than total sales abroad of such products, and on the whole those countries tend to be relatively greater purchasers of Mexican industrial products than the rest of the world as a whole.

Furthermore, Mexican sales of manufactures proper to the LAFTA countries are the most diversified (1974), after those to the United States. On average, the degree of diversification in the case of the United States is 56 per cent and almost 80 per cent for metalworking products (33 per cent for the products of non-durable consumer goods industries and 44 per cent for the products of the intermediate industries) (see again table 12). This is significant, since it represents a step towards the creation of inter-industrial links. This diversification, however, is heavily influenced by the Andean Group and Brazil, and is at least partly based on the operations of

/subsidiaries of

subsidiaries of transnational corporations. It was pointed out earlier that the diversification occurred during the last decade, so that it may be assumed to have originated in the process of industrialization of Mexico and the other countries of the bloc, as well as in the framework and the instruments provided by the Latin American Free Trade Association.

The exports of manufactures towards the different countries of LAFTA have different characteristics. Naturally, the main purchaser is Brazil, followed at a great distance by Venezuela, Argentina, Colombia and Peru; the share of Chile and Ecuador is relatively small, and that of the smaller countries, Bolivia, Paraguay and Uruguay, is insignificant (see table 14). The qualitative differences are as great as the quantitative ones. In the case of Argentina and Brazil, inter-industrial links are important, since 33 per cent and 27 per cent respectively of their purchases of manufactures proper correspond to parts for machinery, radios, television sets and motor vehicles. This percentage rises to 52 per cent for Venezuela, of which almost 90 per cent is due to purchases of motors for automobiles. This type of link is much weaker with Chile, Colombia and Peru, and practically inexistent with the smaller and less industrialized countries of LAFTA. What is also important is the preponderance of exports of products for which it may be assumed economies of scale are greater: metalworking and basic industries (mainly chemical and metals). The sum of these two represents almost 80 per cent of the total value of exports of manufactures to those countries, with Brazil, Argentina and the medium-sized countries once again in the forefront. This likewise suggests the progress being made in reaching a certain level of industrial integration, although only in an incipient manner, bearing in mind that the trade coefficients are small, as is the importance of such exports in domestic production or in the supply of the LAFTA countries.

/Table 14

Table 14

MEXICO: FOB EXPORTS OF MANUFACTURES TO THE LAFTA COUNTRIES, 1974

(Millions of pesos)

Industries of origin	LAFTA	Argentina	Brazil	Paraguay	Uruguay	Andean Group						
						Total	Bolivia	Colombia	Chile	Ecuador	Peru	Venezuela
Total	197.5	27.4	69.5	0.3	6.3	94.0	0.8	25.5	9.7	8.1	17.5	32.2
Manufactures proper	104.3	16.2	28.7	0.3	0.5	58.6	0.7	15.3	3.9	6.5	9.4	22.8
I. Non-durable consumer goods	21.0	3.3	2.3	0.1	0.1	15.1	0.2	3.2	1.4	2.9	2.3	5.0
Food, beverages and tobacco	1.3	0.7	-	-	-	0.6	-	-	0.1	-	-	0.5
Textiles leather, footwear and clothing	1.1	-	1.0	-	-	0.1	-	-	-	0.1	-	0.1
Printing and publishing	14.1	2.0	0.3	0.1	0.1	11.6	0.2	2.9	1.2	1.1	2.1	4.1
Pharmaceutical	4.4	0.7	1.0	-	-	2.7	-	0.3	0.2	1.6	0.2	0.4
II. Intermediate	8.9	2.4	1.5	-	0.1	4.9	-	2.5	0.3	0.4	0.6	1.1
Wood and furniture (articles)	-	-	-	-	-	-	-	-	-	-	-	-
Rubber (articles)	0.5	-	0.1	-	-	0.4	-	-	-	0.1	0.1	0.2
Chemical	5.5	2.4	1.3	-	0.1	1.7	-	0.5	0.2	0.1	0.3	0.5
Non-metallic mineral products	1.0	-	0.1	-	-	0.9	-	0.3	-	0.2	0.1	0.4
Petroleum products	1.8	-	-	-	-	1.8	-	1.7	0.1	-	0.1	-
III. Metal-working	74.4	10.5	24.9	0.2	0.2	38.6	0.5	9.6	2.1	3.3	6.5	16.6
Metal products	8.3	0.1	0.6	-	-	7.6	0.2	3.6	0.2	0.6	1.3	1.5
Machinery and other mechanical	23.5	4.9	9.1	0.1	-	9.4	0.1	3.2	0.7	0.7	2.8	1.8
Products (parts)	(7.4)	(1.4)	(1.2)	(-)	(-)	(4.7)	(-)	(1.8)	(0.4)	(0.4)	(1.1)	(0.9)
Electrical machinery and material	14.9	4.9	6.6	-	-	4.2	-	0.9	0.2	0.1	1.6	1.5
(Radio and TV parts)	(10.4)	(3.5)	(5.7)	(-)	(-)	(1.1)	(-)	(0.4)	(0.1)	(-)	(-)	(0.5)
Transport equipment and material	17.9	0.5	2.8	-	-	14.6	0.2	0.7	0.5	1.9	0.2	11.1
(Parts incl. motors for Venezuela)	(14.4)	(0.5)	(2.7)	(-)	(-)	(11.1)	(-)	(0.2)	(0.2)	(-)	(0.2)	(10.4)
Various (films or plates)	9.8	1.0	5.8	-	0.1	2.9	-	1.2	0.5	-	0.5	0.7
Semimanufactures	93.2	11.2	40.8	-	5.9	35.4	0.1	10.2	5.8	1.6	8.1	9.4
I. Non-durable consumer goods	4.7	2.7	-	-	0.1	1.9	-	0.1	1.8	-	-	-
Food beverages and Tobacco	1.8	-	-	-	-	1.8	-	0.1	1.7	-	-	-
Textiles	2.9	2.7	-	-	0.1	0.1	-	-	0.1	-	-	-
II. Intermediate	85.3	8.5	40.8	-	5.7	30.2	0.1	7.0	4.1	1.6	8.0	9.4
Paper (cotton cellulose)	0.1	-	-	-	-	0.1	-	-	-	-	-	0.1
Chemical	42.0	7.0	17.6	-	0.2	17.1	0.1	3.4	3.0	1.5	2.5	6.7
Non-metallic mineral prods.	1.0	0.1	0.2	-	-	0.7	-	0.1	0.2	-	0.2	0.3
Petroleum products	12.8	-	7.1	-	5.0	0.7	-	-	0.6	-	-	-
Base metal product	29.4	1.4	15.8	-	0.5	11.6	-	3.6	0.3	0.1	5.3	2.3
III. Metalworking (metal structures)	3.3	-	-	-	-	3.3	-	3.2	-	-	0.1	-

Source: CEPAL, on the basis of figures and Tabulations of the Dirección General de Estadística, according to the 186 products sample.

/The Association

The Association has two main instruments: the "national lists" and the "complementarity agreements". In the former, each country offers tariff "concessions" for specific products coming from the others. In the second, two or more countries grant reciprocal concessions for specific products within the framework of given industrial areas. In 1974 the national lists contained 11,159 concessions and 20 agreements, with another 2,798 concessions, had been entered into (see table 15). The latest agreement, however, was entered into almost 4 years ago, which reflects to some extent the difficulties hindering the progress of LAFTA as well as the relatively slow growth of concessions in the national lists (only a little over 3 per cent annually over the last 10 years, and only 0.4 per cent in 1974).1/

Naturally the three more industrialized countries - Argentina, Brazil and Mexico - are those which have granted the largest number of concessions and entered into the most complementarity agreements, totalling 53 per cent of the concessions in the lists and agreements among the three of them (see again table 15). This proportion is probably close to 100 per cent in terms of products covered, since only petro-chemicals are excluded from the agreements entered into, at least for one of those countries; furthermore, in the national lists few products are excluded from the concessions granted by them, or by one of them.

This state of affairs is the result of the higher degree of industrialization of those countries and therefore of their greater expectations about competition in a wider and more diversified range of products. It should be borne in mind that most instruments led, more than anything, to at least potential competition, and less to complementarity, since the concessions granted by both instruments are in the majority of cases repeated by the countries. Nevertheless, some inter-industrial links are developing, as was pointed out above, which again primarily affects the three larger countries; this is now reflected in the complementarity agreements themselves (see again table 15) despite their limitations.

1/ Secretariat of the Latin American Free Trade Association (LAFTA), Document ALALC/C.XIV/del 7, p. 34.

/Table 15

Table 15

LAFTA: COMPLEMENTARITY AGREEMENTS AND CONCESSIONS BY 1974

N°	Product	Argentina	Brazil	Bolivia	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela	Concessions granted in agreements	
													Total	In which Mexico participates
1	Statistical machines	X	X		X						X		20	
2	Electronic valves	X	X					X					51	51
3	Electrical appliances		X								X		20	
4	Electr. and electrical communic.		X								X		Not in force	
5	Chemicals	X	X		X	X		X		X	X	X	488	488
6	Petrochemicals			X	X	X				X			142	
7	Household goods	X									X		39	
8	Glass	X						X					47	47
9	Gen., transf. and distr. of electr.		X					X					56	56
10	Office machines	X	X					X					51	51
11	Office machines	X	X					X					9	9
12	Electronic and electr. communic.		X					X					133	133
13	Phonograph ind.	X	X					X			X	X	27	27
14	Refrig., air condit. and appliances		X					X					44	44
15	Chemical-pharmaceutical	X	X					X					530	530
16	Petrol. based chemicals	X	X					X				X	147	147
17	Refrig., air condit. etc. and appliances	X	X										150	
18	Photography	X	X					X			X		190	190
19	Electr. and electrical communic.	X	X					X			X		193	193
20	Pigments and dyestuffs	X	X		X			X					452	452
	Total (20)	14	17	1	4	2	-	14	-	2	8	3		
I	Concessions granted in agreements	724	892	36	108	63	-	749	-	76	86	55	2 789	
II	In which Mexico participates	622	799	-	71	26	-	749	-	39	57	55		2 428
III	Concessions in national lists	1 881	1 877	196	979	778	1 728	1 212	702	504	810	492		11 159
IV	Total concessions for Mexico (II + III)	2 503	2 676	196	1 050	804	1 728	1 961	702	543	867	547		13 577
V	Same excluding Mexico													11 616

Source: According to LAFTA Secretarial information and figures.

/In general

In general it is considered that the margins of preference granted by the concessions are insufficient to generate a much higher level of trade among the 11 LAFTA countries. This is thought to be particularly true of Mexico and its exports towards the countries of the "Cono Sur",1/ combined with a certain industrial backwardness on the part of Mexico in comparison with Argentina and Brazil.

In any case, the concessions in the lists and agreements cover the great majority of products (entries in the Mexican tariff list) which over the last 10 years have raised the level of trade among the LAFTA countries and between them and Mexico in particular. The agreements provide about 800 concessions to Mexico, in terms of products, and the lists a further 2,000 or more, (the inventory of the latter must be drawn up eliminating the overlap with the total 11,159 concessions contained in all the national lists).

All the same, some argue that this increase is primarily affected by the activities of the transnationals and that therefore that the LAFTA instruments have been to the point but rather marginal.

Some of the exports to the LAFTA countries which have grown most are precisely in industries where the transnational corporations are predominant. Thus, for example, adding together the value of exports of chemical and pharmaceutical products, machinery and other non-electrical mechanical products, electrical (including electronic) machinery and material and transport equipment and material, it appears (see table 16) that their share in total sales to LAFTA grew from 40 per cent to 55 per cent between 1955 and 1974, while the importance of the transnationals in the production of these lines in 1970 was over 50 per cent, and as high as 60 per cent or 70 per cent.2/

1/ CEPAL/NAFINSA study on Condiciones de acceso de los bienes de capital al mercado de los países miembros de la ALALC (CEPAL/MEX/76/C).

2/ Las empresas transnacionales, expansión a nivel mundial y proyección en la industria mexicana, op. cit.

/Table 16

Table 16

MEXICO: EXPORTS OF MANUFACTURES TO THE LAFTA COUNTRIES, 1965 AND 1974

(Millions of dollars)

Industries of origin	Total manufactures		Manufactures proper a/	
	1965	1974	1965	1974
Total	24.8	197.5	10.0	104.3
I. Non-durable consumer goods	5.7	25.7	4.3	21.0
Food, beverages and tobacco	0.1	3.1	0.1	1.3
Textiles, leather, footwear and clothing	0.2	4.0	0.1	1.1
Printing and publishing	3.7	14.1	3.7	14.1
Pharmaceuticals	1.7	4.4	0.4	4.4
II. Intermediate	14.7	94.1	1.5	8.9
Wood (articles) and furniture	-	-	-	-
Rubber (articles)	-	0.5	-	0.5
Paper and cellulose	-	0.1	-	-
Chemicals	5.3	47.5	1.2	5.5
Non-metallic mineral products	0.4	2.0	0.2	1.0
Basic metals	9.0	29.4	-	-
Petroleum products	-	14.6	-	1.8
III. Metal-working	4.4	77.7	4.2	74.4
Metal products	1.6	11.6	1.4	8.3
Machinery and other mechanical products	2.0	23.5	2.0	23.5
Electrical machinery and equipment	0.5	14.9	0.5	14.9
Transport equipment and material	0.3	17.9	0.3	17.9
Other	-	9.8	-	9.8

Source: Based on information and tabulations of the Dirección General de Estadística.
Corresponds to the 186 products sample.

a/ Defined on the basis of the UNCTAD classification.

/It should

It should also be borne in mind that the exports of transnationals represent 34 per cent of the total value of exports of manufactures, and that the above-mentioned industries cover 71 per cent of them, and also that the export ratio of the transnationals operating in these fields is higher than that of the domestic companies, except in the case of machinery and other non-electrical mechanical products (1973).1/

According to these figures, the exports of the transnationals in these lines amounted to some 256 million dollars in 1973,2/ while total exports of such products amounted to 354 million dollars;3/ in other words, the transnationals accounted for 72 per cent of such exports.

As far as LAFTA is concerned, it is significant that already in 1972 the imports of the transnationals from Argentina and Brazil reached 42 per cent and 36 per cent respectively of the total Mexican purchases in those countries, which would seem to indicate a certain policy of integration among the subsidiaries located in the LAFTA countries.4/

4. Effects of the Generalized System of Preferences

Until 1974, the value of Mexican exports towards the countries which had put into practice the generalized system of preferences (the EEC, EFTA, Canada and Japan), had been on the increase, generally speaking, but began to fall in the 1975 crisis. However, Mexico's trade deficits continued to grow, and reached 1,272 million dollars in 1975, which represented 34 per cent of the countries total deficit

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1/ Las empresas transnacionales, expansión a nivel mundial y proyección en la industria mexicana, op. cit.

2/ Calculated on the figures for total exports of manufactures (1,028 million dollars) given by the above study.

3/ On the basis of information and tabulations (ISIC classification) of the Dirección General de Estadísticas.

4/ Las empresas transnacionales, expansión a nivel mundial y proyección en la industria mexicana, op. cit.

/(see again

(see again table 9). This percentage nevertheless represents a relative improvement in the trade with those countries, since in 1965 and 1970 it had been 59 per cent and 52 per cent respectively.

In the first place, exports to those countries became more dynamic during the last few years, to reach 22 per cent in 1974 (16 per cent in 1970), as opposed to earlier trends (in 1965 they had represented 18 per cent). Secondly, Mexico's position as an importer from those countries declined: from 25 per cent in 1970 to 21 per cent in 1974 or 20 per cent in 1975. However, in 1975 exports dropped by 130 million dollars (and their relative importance dropped once again to 17 per cent), thus showing great sensitivity to the unfavourable short-term situation, in comparison with exports to other blocs or countries (see again table 9).

In any case, in 1974 such exports were quite dynamic, which may be assumed to be at least partly linked to the working of the Generalized System of Preferences. This is suggested by the value of the certificates of origin issued by the Mexican authorities to exports under the System, which in 1973 and 1974 exceeded 45 and 42 per cent of the total value of exports of goods to the countries granting them. Furthermore, estimated exports actually made under the System increased in value to 29 per cent and 26 per cent in those years (see table 17). The drop in 1974 is above all related to the economic recession in Japan, whose total imports from Mexico also dropped slightly. There is also the influence of the small drop in the share of the EEC under the System, which may be explained by the large increase in its imports from Mexico outside the System. In any event, the total amount remains relatively high, not only because of the preponderance of the EEC but also because the LAFTA share continued to increase, as did that of Australia, besides the fact that Canada put the System into effect in the middle of 1974. In any case, the relative deterioration of the System for Mexico in 1974 may reflect its restrictions (and those of the systems operated by the EEC and Japan), the much-needed corrections to which were suggested some time ago.1/

1/ See for example, Latin American development and the international economic situation (E/CEPAL/981/Add.2), February 1975.

/Table 17

Table 17

MEXICO: EXPORTS TO THE BLOCS AND COUNTRIES OF THE GENERALIZED SYSTEM OF PREFERENCES (GSP), 1972 TO 1974

	Value (millions of dollars)			Proportion under the GSP (percentage)		
	1972	1973	1974	1972	1973	1974
Exports of goods a/	204.1	355.7	588.7	100.0	100.0	100.0
EEC	93.0	157.7	346.9	100.0	100.0	100.0
EFTA	14.7	36.6	46.6	100.0	100.0	100.0
Japan	74.6	125.2	120.3	100.0	100.0	100.0
Canada	19.8	29.5	63.5	100.0	100.0	100.0
Australia	2.0	6.7	11.4	100.0	100.0	100.0
GSP: Certificates of origin b/	41.7	165.3	247.6	20.4	46.5	42.1
EEC	33.7	79.0	161.1	36.2	50.1	46.4
EFTA	0.9	8.4	15.3	6.1	23.0	32.8
Japan	7.0	76.7	64.7	9.4	61.3	53.8
Canada	-	-	3.4	-	-	5.4
Australia	0.1	1.2	3.1	5.0	17.9	27.2
Exports under the GSP c/	33.3	103.3	154.7	16.3	29.0	26.3
EEC	28.2	48.7	100.7	30.3	30.9	29.0
EFTA	0.6	6.2	9.6	4.1	16.9	20.6
Japan	4.4	47.7	40.4	5.9	38.1	33.6
Canada	-	-	2.1	-	-	3.3
Australia	0.1	0.7	1.9	5.0	10.4	16.7

a/ Banco de México, S.A., Indicadores Económicos, Vol. IV, N° 1, December 1975.

b/ Secretaría de Industria y Comercio, Dirección General de Comercio.

c/ CEPAL, on the basis of estimates by Hosono and Lasach, September 1975.

/The Generalized

The Generalized System of Preferences has tended to favour manufactures, certificates of origin for which represented 67 per cent of their total value in 1974, or 82 per cent excluding Japan, for which other goods (silver ingots) predominate. Industrial products, textiles, chemicals, and transport material were commonest: together they accounted for 80 per cent of the value of the certificates granted to manufactures (see table 18). Artisanal products are also important and grew rapidly.

In 1974 the value of the certificates of origin for exports to the EEC amounted to 65 per cent of the total, and almost 80 per cent in the case of manufactures (see again table 18). This pre-eminence is visible in all the industrial lines, and particularly transport equipment and material (92 per cent), due in particular to exports to the Federal Republic of Germany (71 per cent) and to a lesser extent to Belgium (17 per cent) and other countries.1/ These exports mainly comprise motor-vehicle parts and once again point to the role of the transnational corporations and the inter-industrial links created between mother companies and their subsidiaries.

Still according to the certificates of origin (which over-estimate real exports by about 60 per cent on average), textiles and clothing are the manufactures which have benefited most from the Generalized System of Preferences (see table 19), while the market for such products is diversified, except in the case of clothing where the EEC is predominant. (Apart from garments, this line consists primarily of cotton thread and fabrics, as well as "other products" not specified in the available statistics.) However, information proceeding from Brussels would seem to indicate that restrictions will be established by the EEC for purchases of cotton textiles in Mexico and Colombia.

1/ Secretaría de Industria y Comercio, Dirección General de Comercio.

/Table 18

Table 18

MEXICO: VALUE OF CERTIFICATES OF ORIGIN FOR EXPORTS UNDER THE GENERALIZED SYSTEM OF PREFERENCES (GSP), 1974

(Millions of dollars)

Industries and products	Total	EEC	EFTA	Japan	Canada	Australia
Total	247.6	161.1	15.3	64.7	3.4	3.1
Non-manufactures	80.4[a/]	28.3	4.4	47.6	-	-
Manufactures	167.1	132.8	10.9	17.1	3.4	3.0
I. Non-durable consumer goods	52.9	42.2	5.2	5.0	0.2	0.3
Textiles and clothing	47.3	38.0	4.6	4.6	0.1	-
Other	5.6	4.3	0.6	0.4	0.1	0.3
II. Intermediate	58.0	49.1	3.6	4.5	0.7	0.1
Chemicals	51.0	44.1	3.5	3.0	0.3	0.1
Other	7.0	5.0	0.1	1.5	0.4	-
III. Metal-working	42.4	35.4	0.4	4.7	1.0	0.8
Transport equipment and material	36.7	33.9	0.1	2.1	0.6	-
Other	5.7	1.4	0.3	2.6	0.4	0.8
Various	3.5	2.1	0.2	0.5	0.3	0.5
Artesanal products	10.4	3.9	1.5	2.5	1.1	1.4

Source: Secretaría de Industria y Comercio, Dirección General de Comercio.

a/ Almost 90 per cent is accounted for by silver ingots, lead ingots and zinc concentrates.

/Table 19

Table 19

MEXICO: VALUE OF CERTIFICATES OF ORIGIN FOR EXPORTS UNDER THE GENERALIZED SYSTEM OF PREFERENCES, 1972 AND 1974

(Millions of dollars)

Industries and products	1972	1974
Total	41.7	247.6
Non-manufactures	7.2[a]	80.4[b]
Manufactures	34.5	167.1
I. Non-durable consumer goods	2.4	52.9
Textiles and clothing	1.4	47.3
Other	1.0	5.6
II. Intermediate	9.7	58.0
Chemicals [c]	9.5	51.0
Other	0.2	7.0
III. Metal-working	16.6	42.4
Transport equipment and material	12.3	36.7
Other	4.3	5.7
Various	2.0	3.5
Artesanal products	3.8	10.4

Source: Secretaría de Industria y Comercio, Dirección General de Comercio.

a/ Basically mineral products (EEC) and silver ingots (Japan).

b/ Basically silver ingots (Japan), lead ingots (Holland and Italy), zinc concentrates (EEC and Japan) and to a lesser extent tobacco (Federal Republic of Germany and Japan).

c/ In 1972 hormones amounted to 5-6 millions dollars, but to only 850 000 in 1974.

/Among the

Among the other consumer goods, tinned foods are important; their main destination is England (1974). Exports of chemical products are also vigorous to the countries in the System, despite the fact that the values of the certificates of origin for synthetic hormones fell from 5.6 million dollars in 1972 to a mere 850,000 dollars in 1974.1/ This was largely offset by exports of phosphoric acid (mainly to France), lithargite and "other chemical products" not specified by the data source,2/ mainly exported to the EEC and to a lesser extent Switzerland and Japan.

The other products of the "intermediate" industries exported under the System in 1974 were mainly steel tubes and pipes (mainly to Italy) and copper tubes and pipes (France and Holland), as well as glass products (EEC and Canada).

The products of the metalworking industry, as was pointed out above, were predominantly automobile parts, mainly exported to the Federal Republic of Germany, as well as relatively large exports to Belgium, Japan, France and Denmark. The other products of this industry are of far less significance and include cash registers and parts for them (Australia), electric typewriters (Canada, Federal Republic of Germany and Japan), dry cells (Japan) and textile machinery parts (Holland and Denmark).

At the same time as growing exports to the countries of the System became more diversified and dispersed. However, sufficient information is not available for a more detailed analysis of the diversification of products, although there is an increasing number of entries, with the appearance of some new products and the disappearance of a few others.

1/ Despite the drop in the value of certificates for hormone exports, the latter amounted to 21 million dollars in 1974, 18 million of which went to the EEC (natural and synthetic hormones and steroids), according to the Dirección General de Estadísticas.

2/ Secretaría de Industria y Comercio, Dirección General de Comercio.

/In 1975

In 1975 exports of goods to the countries of the Generalized System of Preferences dropped by some 113 million dollars (see again table 9), as a result of the unfavourable economic situation as well as, perhaps, the rigidities of the System. Judging from the overall figures available,1/ it may be assumed that the effect was greatest in automobile parts, textiles and some chemical products, exports of which have greater weight and appear to be more sensitive.

The United States adopted the Generalized System of Preferences in January 1976, and it is therefore too soon to assess its effects. During the first 9 weeks of operation "A" certificates were issued for a value of nearly 15 million dollars. Furthermore, exporters are making increasing use of the System, so that from the weekly average (which is approaching 2 million dollars) the final result for the year cannot be estimated.2/

The most important products or lines which began to make use of the Generalized System of Preferences of the United States during the first 40 days were chemical products (19 per cent), copper and zinc ore (15 per cent), artisanal products (13 per cent), alcoholic beverages (9 per cent), products of the metal-working group (4 per cent), food (3 per cent) and "other products" (34 per cent).3/ It is still to soon to evaluate the quantitative results in order to assess structural changes in exports to the United States.

1/ Instituto Mexicano de Comercio Exterior, Cinco años de comercio exterior (1971-1975), Mexico City, February 1976.

2/ Secretaría de Industria y Comercio.

3/ Ibid.

III. FACTORS RELATING TO THE SUPPLY OF MANUFACTURES FOR EXPORT

1. Features of the export industry

One of the first features which attracts attention is the unequal distribution of exports, which, varies with the size of the enterprise involved. From a sample of 599 export manufacturing enterprises 1/ taken in 1974, 14, that is 2.3 per cent of the total (with export sales exceeding 100 million pesos) accounted for 42 per cent of all exports. At the other extreme there are 524 enterprises (with sales of less than 25 million pesos), that is 88 per cent of the establishments covered by the survey accounted for 27 per cent of all exports (see table 20).

The above data shows the degree of concentration of the export industry, polarized into two groups: a small group of large exporting enterprises with an annual export average of more than 315 million pesos per enterprise, and a large group whose export average is little more than 3 million pesos.

If a study is also made of the proportion of exports in the total sales of industrial enterprises, in other words the degree to which these firms "specialize" in exports, two trends become clear. First, their moderate impact and, secondly, the marked differences in this connexion in the different branches of activity.

At global level, the ratio of exports to total sales of the enterprises is only 13 per cent. In contrast, greater specialization is observed at the level of branches of activity. For example, in the traditional sector the ratios are above average (foodstuffs 38 per cent, textiles 35 per cent, clothing 15 per cent), whereas in the intermediate and in the machinery and metal products sectors it is

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1/ The survey mentioned earlier which was prepared in 1975 by the Mexican Institute of Foreign Trade.

/Table 20

Table 20

MEXICO: DISTRIBUTION OF EXPORTS OF MANUFACTURES BY SIZE OF ENTERPRISE, 1974

(Percentages)

Division on the basis of the value of exports	Number of enterprises	Exports	Sales
Total	100.0	100.0	100.0
More than 100 million pesos	2.3	42.4	33.2
Between 75 and 100 million pesos	1.0	5.5	4.3
Between 50 and 75 million pesos	2.3	9.7	5.8
Between 25 and 50 million pesos	6.7	15.7	14.7
Less than 25 million pesos	87.7	26.7	42.0

Source: CEPAL, on the basis of a survey carried out by the Mexican Institute of Foreign Trade (IMCE).

/usually the

usually the opposite (see table 21). This might appear to contradict all that has been said to the effect that the share of these branches, and particularly that of the last-mentioned one in total exports of manufactures showed the highest increase. The explanation for this is most probably the fact that at the beginning of the period under study the level of exports of these products was negligible, and also that many of the items had profited from the benefits of the concessions provided under LAFTA agreements. The small proportion of exports in the production of these branches compared with that shown by other branches of traditional industry are probably an indication, however, that the new productive capacity which has been created is mainly import-substitutive in contrast to that of the branches such as textiles, clothing and footwear where the possibilities for import substitution are minimal, since increases in capacity depend to a much greater extent on exports.

Furthermore, if this ratio is analysed, dividing the enterprises on the basis of the amount exported, it is seen that - with the exception of the transport equipment and metal products branches - those enterprises which export the largest quantities are those which have the highest specialization ratios, whereas for the small branches this activity is much less important.

With reference to the source of the capital of the enterprises, it is estimated that, for 1975, 55 per cent of the exports were affected by transnationals and the remaining 45 per cent by Mexican firms (see tables 22 and 23).

If a study is made of the participation of enterprises by sector of origin, it is seen that in the traditional sector, although the participation of transnational enterprises is the smallest (15 per cent) - since textiles which carry the greatest weight are 99 per cent national - the participation of foreign capital is greatest in beverages (68 per cent) and is also considerable in clothing and footwear, and foodstuffs. In the remaining branches considered traditional, in view of their artisanal nature and the predominance of small and medium-sized industries, the share of transnational corporations is small.

/Table 21

Table 21

MEXICO: RATIO OF EXPORTS TO SALES

(Percentages)

	Total	Exports				
		More than 100 million	Between 75 and 100 million	Between 50 and 75 million	Between 25 and 50 million	Less than 25 million
Total	13.4	18.2	17.1	22.4	14.3	8.5
Food	37.5	-	-	71.3	41.6	25.8
Beverages	3.6	-	-	55.0	2.0	4.0
Textiles	34.7	65.7	15.0	61.3	29.8	16.8
Clothing and footwear	14.6	45.0	-	-	19.7	8.8
Printing	17.4	-	21.0	-	23.3	15.4
Chemicals	15.3	75.0	87.6	-	32.7	6.1
Non-metalic minerals	12.2	35.0	-	-	11.8	8.3
Metal products	9.3	12.0	-	-	12.7	7.3
Machinery in general	15.0	75.0	12.0	-	62.3	7.8
Electrical machinery	10.7	-	10.0	63.2	10.8	7.9
Transport equipment	12.8	14.5	24.0	3.6	27.3	7.4
Miscellaneous	12.9	40.0	-	-	-	7.2

Source: CEPAL, on the basis of a survey carried out by the Mexican Institute of Foreign Trade (IMCE).

/Table 22

Table 22

MEXICO: SHARE OF TRANSNATIONAL CORPORATIONS IN EXPORTS OF MANUFACTURES, 1975

(Percentages)

	Total	Transnationals	Nationals
Total	100.0	55.4	44.6
Traditional exports	100.0	14.9	85.1
Food	100.0	26.7	73.3
Beverages	100.0	67.5	32.5
Textiles	100.0	1.3	98.7
Clothing and footwear	100.0	31.4	68.6
Wood	100.0	7.5	92.5
Furniture	100.0	8.9	91.1
Leather	100.0	3.3	96.7
Intermediate goods	100.0	70.0	30.0
Paper	100.0	3.3	96.7
Rubber	100.0	76.2	23.8
Chemicals	100.0	91.2	8.8
Petroleum products	100.0	100.0	-
Non-metallic minerals	100.0	8.5	91.5
Machinery and metal products	100.0	77.7	22.3
Metal products	100.0	43.5	56.5
Machinery in general	100.0	77.5	22.5
Electrical machinery	100.0	71.4	28.6
Transport equipment	100.0	84.7	15.3
Other	100.0	61.1	38.9
Printing	100.0	50.1	49.9
Miscellaneous	100.0	77.3	22.7

Source: Estimates on the basis of data provided by the Mexican Institute of Foreign Trade (IMCE), and breakdown by type of transnational enterprise on the basis of a survey used for preparing a study on transnationals carried out jointly by CONACYT and CIDE.

/Table 23

Table 23

MEXICO: EXPORTS OF MANUFACTURES BY BRANCH OF ACTIVITY AND BREAKDOWN BY TYPE OF TRANSNATIONAL OR MEXICAN ENTERPRISE, ON THE BASIS OF A REPRESENTATIVE SAMPLE, 1975 a/

ISIC Groups	Exports						Export enterprises						Export average by enterprise (millions of pesos)		
	Million of pesos			Structure (percentage)			Number			Structure (percentage)					
	Total	Trans-nationals	Mexican	Total	Trans-nationals	Mexican	Total	Trans-nationals	Mexican	Total	Trans-nationals	Mexican	Total	Trans-nationals	Mexican
Total	10 146.4	5 612.2	4 534.2	100.0	55.4	44.6	578	197	381	100.0	34.1	65.9	17.6	25.9	11.9
20 Food	496.4	132.4	364.0	100.0	26.7	73.3	28	8	20	100.0	28.6	71.4	17.7	16.6	18.2
21 Beverages	281.0	189.8	91.2	100.0	67.5	32.5	19	7	12	100.0	36.9	63.1	14.8	27.1	7.6
23 Textiles	1 777.6	22.9	1 754.7	100.0	1.3	98.7	47	4	43	100.0	8.5	91.5	37.8	5.7	40.8
24 Clothing and footwear	370.8	116.4	254.4	100.0	31.4	68.6	49	4	45	100.0	8.2	91.8	7.6	29.1	5.7
25 Wood	260.0	19.5	240.5	100.0	7.5	92.5	22	1	21	100.0	4.5	95.5	11.8	19.5	11.5
26 Furniture	14.6	1.3	13.3	100.0	8.9	91.1	10	1	9	100.0	10.0	90.0	1.5	1.3	1.5
27 Paper	68.8	68.8	-	100.0	100.0	-	4	4	-	100.0	100.0	-	17.2	17.2	-
28 Printing	462.9	231.7	231.2	100.0	50.1	49.9	41	13	28	100.0	31.7	68.3	11.3	17.8	8.3
29 Leather	42.3	1.4	40.9	100.0	3.3	96.7	13	1	12	100.0	7.7	92.3	3.3	1.4	3.4
30 Rubber	87.5	66.7	20.8	100.0	76.2	23.8	8	3	5	100.0	37.5	62.5	10.9	22.2	4.2
31 Chemical products	879.1	802.1	77.0	100.0	91.2	8.8	53	42	11	100.0	79.2	20.8	16.6	19.1	7.0
32 Petroleum and petroleum products	21.3	21.3	-	100.0	100.0	-	1	1	-	100.0	100.0	-	21.3	21.3	-
33 Non-metallic minerals	356.6	30.4	326.2	100.0	8.5	91.5	51	6	45	100.0	11.8	88.2	7.0	5.1	7.2
35 Metal products	546.5	237.6	308.9	100.0	43.5	56.5	63	22	41	100.0	34.9	65.1	8.7	10.8	7.5
36 Machinery in general	676.0	523.8	152.2	100.0	77.5	22.5	47	22	25	100.0	46.8	53.2	14.4	23.8	6.1
37 Electrical machinery	400.1	285.6	114.5	100.0	71.4	28.6	35	21	14	100.0	60.0	40.0	11.4	13.6	8.2
38 Transport equipment	3 091.8	2 618.4	473.4	100.0	84.7	15.3	43	21	22	100.0	48.8	51.2	71.9	124.7	21.5
39 Miscellaneous	313.1	242.1	71.0	100.0	77.3	22.7	44	16	28	100.0	36.4	63.6	7.1	15.1	2.5

a/ Estimates on the basis of data provided by the Mexican Institute of Foreign Trade (IMCE), and breakdown by type of transnational corporation on the basis of a sample used for the preparation of a study on transnationals carried out jointly by CONACYT and CIDE.

/In the

In the machinery and metal products branch, which has shown the fastest growth in the export of manufactures, the share of the transnationals in the exports generated by these industries is 78 per cent, the biggest contribution being made by the enterprises producing transport equipment (85 per cent), followed by those producing general machinery (78 per cent), and electrical machinery (71 per cent).

In the enterprises exporting intermediate goods the percentage of exports generated by the transnationals is also high (70 per cent), the greatest contribution being made by the chemical industry in which sector multinationals account for 91 per cent of foreign sales.

2. Main variables affecting the level of the exports of manufactures

Although the variables which affect the development of exports are many, some operate with a greater degree of autonomy, determined by the pattern of foreign sales. Although it is difficult to define the fields of influence of these variables, at first sight they are the following: (a) exports associated with growth in domestic demand, because of agreements linking the growth of both; (b) surpluses generated by the contraction in domestic demand; (c) the integration of transnational corporations, and (d) response to external demand. Each of these is analysed separately below.

(a) Increase in exports associated with growth in domestic demand. The most marked case is that of exports by the transport equipment branch which accounts for one-fifth of foreign trade in manufactures. In this case domestic demand, linked with exports through the obligation to export imposed by the production programmes, is the motivating force in the process and the one which determines the advances made.

This branch of activity has been controlled since the beginning of the 1960s by the Federal Government which laid down that enterprises producing cars and trucks shall be subject to production programmes authorized by the Ministry of Industry and Trade, fixed on the bases of

/a standard

a standard quota 1/ and an extra quota subject to export volume or the degree of integration of each of the enterprises.2/ The composition of the production programmes authorized by the government for the enterprises in the terminal motor-vehicle industry has changed substantially, for the basic quotas have remained the same since 1962, whereas the domestic demand for cars and trucks has grown sharply. If the structure of production quotas authorized in 1969 is compared with that of 1975, it can be seen that while in the first year the production programme depended for 78 per cent of its work on the basic quota and for only 12 per cent on the extra quota for export, in 1975 the situation was reversed, the extra quota for export amounting to 48 per cent of the production programme and the basic quota only 38 per cent.

The correlation between domestic demand and exports - in which the former is a major autonomous variable - stems from their dual effect on the economy. In the years in which domestic demand for cars and trucks is maintained, the increases in production for domestic consumption culminate in higher exports. However, if domestic demand falls, this affects not only the growth of the product generated by this branch, but also the balance of payments, since the flow of exports is reduced. It should also be pointed out that to the extent that the motor-vehicle industry diversifies its exports with a view to meeting the requirements fixed by the State, its positive as well as negative effects increase and have wider repercussions owing to the fluctuations in the levels of production. It must also be added that to meet the export quotas this industry has been acting as the intermediary for products which do not properly belong to the sector (see table 24).

1/ Laid down by the Decree of 23 August 1962.

2/ Exports of the terminal enterprises may be made up of: cars and trucks; spare parts and accesories used by the enterprises themselves or by other manufacturers; and any other product whose sale in foreign markets is promoted by the terminal enterprise.

/Table 24

Table 24

MEXICO: THE COMPOSITION OF QUOTAS GRANTED TO THE ENTERPRISES OF THE TERMINAL MOTOR VEHICLE INDUSTRY, 1969 AND 1975

(Percentages)

	1969	1975
Total	100.0	100.0
Basic quota	78.1	38.4
Total extra quota	21.9	61.6
For export	11.7	48.4
For the integration area	6.7	6.0
Other	3.5	7.2

Source: Héctor Vásquez Tercero, Una década de política sobre la industria automotriz, Editorial Tecnos, S.A., Mexico.

/(b) Increase

(b) Increase in exports stemming from a contraction in domestic demand. As a result of the contraction in consumption some branches of production saw an increase in their exportable surpluses - the most marked example is that of the textile industry - which could be placed in markets abroad thanks to the export incentives provided by the State. This type of export accounted for approximately one sixth of manufactures and is made up mainly of textiles, natural fibre products. For example, in this case, the drop in domestic consumption of natural fibres, due to the growing preference for artificial fibres, led to an increase in exportable surpluses.

Although in recent years sales abroad by the textile industry increased rapidly (its share in total exports being 20 per cent), its growth is limited by installed capacity, which in recent years increased slowly, and although it is not used to the full, there is no large margin of idle capacity. In the case of those enterprises whose development is based mainly on domestic demand - which can be met with existing productive capacity - there were no known projects to make sizeable investments.

(c) Increases in exports promoted by the integration of transnational enterprises. The integration of transnational corporations and specialization by countries in the production of selected lines of goods resulted in the sharp growth in exports in these products. More than one-third of the supply of manufactures fall into this category, omitting those exports of the motor-vehicle industry which although carried out by foreign subsidiaries have no special significance for regional integration.

These exports are known for high growth trends, the specialization and the large size of the enterprises, and the structure with which they are endowed, frees them of the problems of transport and marketing, among others.

Although the subsidiaries specializing in export prospered in Latin America under the LAFTA complementarity agreements, there are however different reasons for their establishment, among which the most important are the following:

/(i) Those

(i) Those which begun as mere assembly plants or subcontracting firms to take advantage of low-cost labour and which gradually increased their share of national supplies. These firms produce mainly for the external market, and, therefore, generally specialize in the manufacture of selected products which are sold in the main Latin American markets (Brazil and Argentina), although in some cases they also meet part of demand in the United States and Europe.

(ii) Those enterprises which were established at the beginning of the import substitution process, basing their growth on the potential of the national markets and now, in order to maintain their growth widen their scope of activities to embrace exporting, thereby complementing their activities on a geographical basis.

The composition of exports effected by transnational enterprises by sectors of origin point to their expansion in all the branches of manufacturing activities, the most important being the machinery and metal product branch which accounts for 40 per cent of the total (see table 25).

(d) Increase in exports in response to external demand. Although generally speaking it is indispensable for exportable supplies to have a corresponding demand, there are some items in which it is precisely demand which is the prime growth producing factor in external sales. It is estimated that this type of export accounts for approximately one-quarter of total sales abroad.

It is further estimated that in 1975 enterprises which respond mainly to this variable, nearly all national ones, had a share of 26 per cent of total exports, made up predominantly of traditional goods by sectors of origin (see table 25).

These exports show a more irregular pattern which is linked to changes in external demand; the predominant exports among them are those effected by medium-sized and small enterprises, which in general face acute problems in respect of production, lack an "exporting tradition", and contribute a relatively marginal amount to the exports of the industrial sector in which they operate. The result of this is irregular limited supplies and export difficulties.

/Table 25

Table 25

MEXICO: ESTIMATED COMPOSITION OF EXPORTS EFFECTED BY TRANSNATIONAL AND NATIONAL CORPORATIONS, BY BROAD CATEGORIES, 1975

(Percentages)

	Corporations	
	Transnationals	Nationals
Total	100	100
Traditional	16	47
Intermediate	33	19
Machinery and metal products	40	24
Others	12	10

Source: Estimates on the basis of data provided by the Mexican Institute of Foreign Trade (IMCE), and the category of transnational enterprises on the basis of a sample used for the preparation of a study on transnationals carried out jointly by CONACYT and CIDE.

/It is

It is particularly this sector to which the State gives highest priority through the Mexican Institute of Foreign Trade which attempted to create the exporting infrastructure to help in establishing more stable flows and export growth the results of which are likely to be better appreciated in the years ahead.

3. Main problems affecting the exports of manufactures

This section examines the main problems which hamper or limit the flow of exports of manufactures, from the point of view of the industrial entrepreneur. The groups in which they fall depends on the nature of the problems concerned, production, transport, external market, marketing, financing, tariffs, among others. The study is based on the result of direct interviews carried out by CEPAL among a selected group of enterprises in the various branches, which are dealt with in greater detail in the following section of this chapter, and on information provided by IMCE from the last survey carried out by this institution. A summary of the results of this survey is provided in table 26.

On the basis of the survey in question, of the total of 560 export enterprises - excluding those corresponding to the transport equipment branch - 344 (62 per cent) declared that they had problems of various types which hampered their sales abroad. If the enterprises are grouped on the bases of exported volume, it can be seen that the incidence of export obstacles is less in those with the greatest volume of exports, and higher, in contrast, in the medium-sized and small exporting firms (see table 27).

/Table 26

Table 26

MEXICO: THE RELATIVE IMPORTANCE OF THE TYPE OF PROBLEM LIMITING THE EXPORT OF MANUFACTURES

Export problems	ISIC																
	Total	20	21	23	24	25	26	27	28	29	30	31	33	35	36	37	39
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Production	31.6	29.3	17.5	35.7	27.0	63.1	41.2	-	3.1	44.9	25.0	65.4	13.5	34.5	14.3	33.8	25.3
Raw materials	26.7	25.3	15.6	27.8	25.0	57.4	29.4		3.1	38.3		59.2	7.7	34.3	10.7	15.8	23.0
Labour	4.0	4.0		7.9	2.0	5.7	11.8		-	11.6	12.0	6.1	1.9		1.9	12.3	2.3
Machinery and equipment	0.9		1.9								13.0	0.1	3.9	0.2	1.7	5.7	
External market	25.9	55.4	21.6	50.9	28.7	10.7	23.5	1.4	18.3	0.7		9.7	12.7	10.0	22.7	30.8	6.9
Transport	15.1		7.8	2.7	8.7	14.2		85.3	15.9		12.0	7.5	56.9	10.9	38.2	8.4	49.4
Road	1.4				0.8							1.4	18.1	1.6		0.2	
Rail	0.2												0.4	1.9			
Sea	11.1		7.8	2.7	1.5	7.1		72.0	9.7		12.0	3.1	37.3	7.4	38.2	8.2	35.6
Air	2.4				6.4	7.1		13.3	6.2			3.0	1.1				13.8
Marketing	4.4		7.8	1.0	9.1				18.6			2.4	5.4	2.8	0.8	0.3	2.3
Distribution network	3.7			1.0	7.9				18.6			2.4	4.6	2.8	0.8	0.3	2.3
Publicity	0.2				1.2								0.8				
Storage	0.5		7.8														
Promotion services																	
Finance	3.7			0.3	14.7	0.7						2.7		0.5	14.5	5.4	
Production	3.2				14.7	0.7						2.7			14.5	5.4	
Export	0.5			0.3										0.5			
Technology	1.2		17.8			0.7						0.6					
Others	18.1	15.3	27.5	1.4	11.8	10.6	35.3	13.3	44.1	46.4	63.0	11.7	11.5	33.3	9.5	21.3	16.1
Tariffs	4.8	4.3	27.2	0.5	2.3	10.6	29.4		7.4			0.4	7.3	5.8	1.2	0.8	14.9
Inadequate legal incentives	0.9			0.3								1.4			1.2	6.8	
Regulations	7.4	6.5	0.3	0.6	0.2		5.9		29.9	0.7		5.4	3.4	12.5	4.6	13.7	1.2
Export procedure	5.0	4.5			9.3			13.3	6.8	37.7	63.0	4.5	0.8	15.0	2.5		

Source: Prepared on the basis of data provided by ECE from a survey carried out on export enterprises.

/Table 27

Table 27

MEXICO: EXPORT ENTERPRISES WHICH REPORTED PROBLEMS

	Total	Enterprises which reported problems	Percentage (2/1)
	(1)	(2)	(3)
Total	560	344	61.4
Exports above 100 million pesos	9	3	33.3
Between 75 and 100 million	7	3	42.9
Between 50 and 75 million	13	10	76.9
Between 25 and 50 million	35	21	60.0
Less than 25 million	496	307	61.9

Source: Prepared on the basis of data provided by the Mexican Institute for Foreign Trade (IMCE), from a survey carried out on export enterprises in 1975.

/If one

If one examines the relative importance of the problems raised for export enterprises, it can be seen that the greatest number concerns areas of production (31.6 per cent), followed by external demand (25.9 per cent) and transport (15.1 per cent), whereas those relating to marketing, finance and technology are less important in comparison (4.4 per cent, 3.7 per cent and 1.2 per cent respectively). However, it must be stressed that since the problems are weighted on the basis of the value exported by each enterprise, those of the major exporters have a greater incidence than those of the small exporters (see table 26).

(a) Production problems

(i) Raw materials. Among production problems, the important ones are those related to scarcity and high prices of raw materials, which exercise their effect by both limiting the volume of production available for export as well as the competitiveness of Mexican exports in the external market. Practically all the industries reported problems in this respect, although it was of minor importance in the publishing industry which has greater possibilities of obtaining inputs from abroad; its impact also seems limited in the general machinery and electrical machinery branches in which the export enterprises use a high proportion of imported intermediate goods which they are allowed to import, and impact is also slight in the beverages, non-metallic minerals and rubber sectors which have an adequate supply of raw materials.

In the remaining industrial branches, the more common problems at the level of the enterprise are the following:

(1) The high price of national inputs compared with similar imported products, which affects costs and consequently the degree of competitiveness in external markets. This affects practically all the branches of industry, since according to direct information provided by the Ministry of Industry and Trade on the basis of a sample of enterprises, they stated that the prices of intermediate goods are between 30 and 125 per cent higher than those for the same products

/originating in

originating in the United States. A case in point is that of metal products, the main input of which - steel - is approximately 30 per cent higher in price than the imported product.

(2) Scarcity of raw materials; among the branches which have stated that this problem is of particular relevance there are:

- Footwear and leather products, whose needs are covered to the extent of approximately 50 per cent by national industry, and which owing to defects in the organization of domestic supply of this input face problems of ensuring an adequate flow of imported raw materials.

- The clothing industry, whose demand for inputs competes with external demand since there are exportable margins in the textile industry. In this case it seems that the textile manufacturers prefer to sell their surpluses in the United States, because of the profit margin offered by the fiscal export incentives.

- The food industry, whose supply of inputs has been interrupted by the growing domestic demand for agricultural products, which has even led to a change in the allocation of land in favour of crops for domestic consumption.

Lastly, it should be noted that since 1975 the chemical industry, and specifically those firms producing hormones have faced a rise in the price of barbasco - the main input - owing to the policy adopted in this respect by the Mexican Government (see the section relating to chemical products).

(ii) Labour problems. Generally speaking, the export industry does not consider the problems of the supply of labour, nor even of skills to be major ones. As regards wages, it seems that the increase caused by inflation in recent years has begun to affect industrial costs, particularly in the smaller enterprises.

(iii) Problems of machinery and equipment. Since most of the machinery and equipment used by the export industry comes from abroad, there is an adequate supply of this type of good. In this case the problems occur in obtaining import permits for replacing equipment, which are delayed because of the slowness of the procedure.

/(b) Problems

(b) Problems of the external market

The problems relating to external demand take second place after those relating to production. Although in this chapter the obstacles relating to external demand will not be analysed, it should be pointed out that the products of the traditional industries (such as food and textiles), which depend mainly on the United States market, prove more vulnerable to fluctuations or drops in this demand.

It should also be pointed out that in the section of table 27 relating to "Other problems" there are some which are linked with this topic, for example, those relating to the operation of specific rules which refer basically to restrictions on Mexican exports, such as the establishment of import quotas. A typical example is that of the publishing industry whose exports to Latin America have been seriously limited recently by actions of this type.

(c) Transport problems

Although the incidence of the problems in this area are relatively less important (15 per cent) taking the whole range of problems, it can be seen that they represent a serious obstacle to exports outside the geographical range which can be covered by rail or road transport, thereby affecting to a large extent the price of exported products.

(i) Maritime transport. 74 per cent of the problems indicated by the entrepreneurs relating to this aspect is associated with inadequate infrastructure, or a lack of infrastructure, and the high tariffs of maritime transport. Although no information is available for evaluating the degree of sufficiency of the port system compared with the real and potential volume of exports of manufactures, mention should be made, for example, of Veracruz through which almost 50 per cent of the national coastal shipping passes.

Its facilities date from the beginning of the century and the serviceable depth of the port is only 32 feet - without any possibility of a further dredging - it only permits the operation of ships of less than 20,000 tons. Owing to the inadequacies in the port system, this terminal handles general cargo, which implies a wide variety of handling operations which take up to much space and prolong the lay days of the

/ships in

ships in port. If the delays arising out of the system of work and the high charges for cargo handling are added to this, the final result is an increase in transport costs well above that of other international ports.

If, furthermore, one takes account of the fact that the country lacks a merchant navy, as a result of which it depends on the shipping lines which call at Mexican ports, the probability of effecting timely shipments calls for great care on the part of the export enterprises, which are generally forced to reserve space from the ports of origin.

Lastly, it should be pointed out that this as well as other problems affect the smaller enterprises more owing to the difficulty they have in absorbing the high costs and solving the organizational problems.

(ii) Air transport. Owing to the requirements which the product must meet (limited weight and volume and high value added) to offset the costs of air transport, only a small part of exports use this type of transport.

Although export by this means is simpler and quicker than by other means, the main problem is the lack of a cargo fleet and airfreighting must, therefore, depend on the space available on the passenger lines, which on occasion is insufficient. Furthermore, the lack of a merchant air fleet makes it impossible to use containers which facilitate dispatch and offer protection to exports against damage and loss.

(d) Marketing problems

The problems of marketing are of less importance (4 per cent) compared with those of production, the external market and transport, since the large enterprises among which there are foreign subsidiaries are not subject to these problems since they have export departments which back up these operations through a vast and efficient network of intercommunications. However, the problems of marketing constitute considerable stumbling blocks to small and medium-sized enterprises which limit the growth of their exports and prevent the formation of an export tradition, in spite of the measures designed to set-up

consortia, discussed in chapter VI. On a sectoral basis, these problems are more relevant in the printing and publishing branch where their relative importance is 19 per cent.

Among marketing problems, the most important are those relating to distribution networks - with a weight of 85 per cent - and those related specifically to the high costs and slowness in operations. In the case of the publishing industry these factors have contributed to the loss of Latin American markets in view of the organization of the Spanish publishing industry backed by the Government of that country.

(e) Finance problems

Although on the basis of the survery carried out by the Mexican Institute of Foreign Trade the problems of finance are of relatively little importance, in the case of the smaller enterprises they are of consequence since they limit both production and exports.

First, it should be noted that in spite of the fact that the maximum legal rate of interest governing commercial bank operations is 12 per cent, when commissions and other charges are added this amounts to 18 per cent, as a result of which it is above those prevailing in the money markets of many countries with which Mexico competes as an exporter.

Furthermore, the insufficient supply of short-term and medium-term funds implies restrictions both in respect of the fixed and the working capital of the export enterprises, and limits their possibilities of increasing exportable supplies at competitive prices.

Aware of this problem the Mexican Government set up the Fund for the Promotion of Exports of Manufactured Products (FOMEX), in 1972. The action taken by this body is dealt with in detail in the following chapter.

IV. EXPORT INCENTIVES

1. General aspects

The increasing importance attached to the policy of incentives for industrial exports - mainly in the 1970s - finds expression both in the use of a larger number of instruments and in the more intensive use of those already in operation. This trend coincides with a growing awareness that towards the end of the 1960s the import substitution process had lost momentum as a dynamic factor of industrial development. As already noted in chapter I, section 2, however, it is clear that this process will have to continue and the specific policies governing this new phase of import substitution are influencing and will continue to influence the structure of Mexico's industry and, therefore, the real impact which the export promotion measures may have. For example, the prolonged - and sometimes excessive - protection obviously jeopardizes the competitiveness of Mexico's industrial production and would tend to make the export promotion policy less effective. Moreover, the existence of a captive market has hindered the manufacturers' contact with other countries, so that an export consciousness is only gradually being formed among them.

At the same time, the negative balances on the current account of the balance of payments increased considerably.1/ In this connexion, it should be noted that the serious bottleneck in the external sector called for more stringent measures to be taken to limit the outflow of foreign exchange (for example, extending the coverage of import permits). The obvious result was that this situation made it difficult to take more rapid action to modify the structure of industry so as to make it more competitive on the world market and more vertically integrated.

1/ See chapter I of this study.

/The new

The new strategy considered, among other objectives, the vital need to increase exports in order to be able to finance the purchase of technology and machinery which are not yet produced in the country without any ties attached.1/ Logically enough, the promotion of industrial exports played a basic role in this approach.

In this chapter, export incentives are analysed and classified according to their characteristics, as shown in table 43.2/ Moreover, from the standpoint of the possible measurement of their effects, a point about which more will be said later, a distinction should be made between the incentives acting on prices and those acting on quantities. The first group includes tax and credit incentives, the credit situation in Mexico being admittedly relatively flexible, although fairly severe restrictions on credit expansion are sometimes imposed. Even in these cases, however, priority treatment was given to credit for industrial exports. Production programmes and licences belong, on the other hand, to the group of quantitative instruments. Lastly, it may be mentioned that a group of other measures (of an institutional nature, for instance) operate indirectly, so that it is difficult to quantify their results, even in ideal cases where ample statistical information was available.

Without examining all the conceptual aspects of an investigation into the effects of the various instruments, it should be borne in mind that in order to obtain a clear picture of the results achieved through their use it would be necessary to take into account all the factors connected with their costs and benefits, including the following:

1/ Banco Nacional de Comercio Exterior, México: La política económica del nuevo gobierno, p. 28.

2/ There are other classifications of incentives for the promotion of industrial exports, which distinguish financial incentives from the entrepreneurial role exercised by the Government in the form of the promotion of and assistance in the development of exports (United Nations Conference on Trade and Development, Incentives for industrial exports).

/Table 43

Table 43

MEXICO: CLASSIFICATION OF INSTRUMENTS USED IN THE PROMOTION OF INDUSTRIAL EXPORTS

1. Fiscal incentives

   (i) Direct subsidies

   (ii) Rebate of taxes on sales and other similar operations

   (iii) Income tax incentives

2. Quantitative control measures

   (i) Manufacturing programmes

   (ii) Other (quotas, etc.)

3. Credit and financial incentives

   (i) Preferential rates and repayment periods

   (ii) Export insurance

4. Trade agreements with other countries

5. Institutional measures

Source: CEPAL, on the basis of various official data. This table does not include the direct action by the public sector through decentralized enterprises with a view to exporting.

/(a) As

(a) As regards the effect on the balance of payments, consideration should be given not only to the income deriving from exports but also to their impact in the form of the outflow of foreign exchange entailed in their development, mainly under the head of:

(i) Imports of additional inputs;

(ii) Imports of capital goods and/or the import content of the domestic capital goods required;

(iii) Payment under the head of royalties, patents, etc., in the event of requiring imported technologies;

(iv) Financing and other expenditure involved in selling the products abroad; and

(v) Transfers of profits abroad in the case of foreign companies.1/

(b) To the extent that it is not the result of a shift of sales on the domestic market, the increase in exports will be reflected in an increase in national income - and therefore in employment - the size of which is determined by the related effects;

(c) Considerations connected with the cost of production, aimed at an efficient allocation of resources that would enable export strategy to avoid repeating certain errors committed in import substitution giving rise to a waste of capacity and uncompetitive industries. To the extent that exports - on their own or combined with domestic sales - determine a significant volume of production, economies of scale may be generated, depending on the structure of production (number and size of enterprises), type of products manufactured and techniques used;

(d) The effectiveness and the impact on the balance of payments should not be analysed in static terms; the effects on the balance of payments produced in the medium term should be considered, allowing for the fact that markets are not penetrated immediately and also that costs do not remain unchanged;

1/ On this point, it was stated at a meeting of experts that when subsidies are granted for exports of foreign-owned companies care should be taken to see that a net balance remains to the credit of the country granting the subsidy (Incentives for industrial exports, op. cit., page 13).

/(e) Possible

(e) Possible effects on the structure of industry; mention should be made of the possible transfer of external economies through other industries, by means of links with supplier industries or with the sectors purchasing the industrial products. In the changes envisaged in the production structure, the possibility should also be taken into account that a new industry may lead to the establishment of other industries. Lastly, the significance of the advantages resulting from the production and export of capital goods should be thoroughly evaluated, since the absorption of technological innovations deriving from their development has a powerful irradication effect on other sectors; and

(f) Finally, a particular aspect of the allocation of resources is the fiscal cost of the incentives provided and the higher fiscal income obtained.1/

Although it will not be possible to investigate all the repercussions of the group of policies adopted, it is useful to consider them as a general frame of reference.

With the exception of the cost of the incentives, the other effects are the result of the increase obtained in exports. This increase, however, brings with it other effects which could strengthen the general policy aims.

In broad terms, and before going into a more detailed description of the provisions designed to stimulate industrial exports, the fact should be stressed that, although the inflow of foreign exchange has been the dominant criterion, the other objectives referred to above have been increasingly kept in mind. In this respect, the following economic policy measures or lines of action may be indicated:

(1) One of the basic objectives of the promotion of export industries using imported inputs (maquila) has been to increase employment;

1/ For an examination of the effects of exports of manufactures, see also: G.K. Helleiner, "Manufacturas para exportación, empresas multinacionales y desarrollo económico", Comercio Exterior, November 1973, pp. 1136 et seq.

/(2) The

(2) The concern for achieving a more integrated industrial development led to the elimination of rule XIV which accorded privileges to importers of machinery and equipment.1/ In its place there is a system of subsidies for imports of capital goods required for exports of industrial products or for the production of new capital goods; these benefits are applicable only when the machinery or equipment is not produced in the country. In addition, specific conditions have been established regarding the increase in exports to be achieved with a given volume of imports.

Besides the provisions governing the refund of indirect taxes, other aspects specifically contemplated are national integration and the degree of processing of export production;

(3) As regards the efficient allocation of resources, when describing the objectives pursued in the decisions of the Ministry of Finance and Public Credit on tax refunds, it is understood that the competitive position of the industry benefiting from this measure will be taken into account. The fulfilment of these criteria is also supervised through the constant action of the aforementioned Ministry;

(4) The production programmes permit a number of objectives to be kept in mind; attention is drawn to the fact that foreign exchange earnings and expenditure are considered together. Concurrently, the number of instruments directly or indirectly favouring industrial exports has increased as clearly shown in table 44.

In order to help understand the significance of the effects of the various measures, they may be classified in the following groups:

(a) Basic incentives

(b) Concurrent incentives

(c) Complementary incentives

This classification is believed to be preferable, in keeping with the criterion adopted, to others which take into account, for example, the items affected or favoured (gross income, costs and benefit).2/

1/ See, in this respect, CEPAL-NAFINSA, La política industrial en el desarrollo de México, op. cit.

2/ See Luc de Wulf, Fiscal Incentives for Industrial Exports in Developing Countries, IMF, 30 January 1976.

/Table 44

Table 44

MEXICO: INSTRUMENTS IN FORCE FOR THE PROMOTION OF EXPORTS OF MANUFACTURES, 1965-1975

Instruments	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Tariff											
General export tax law	X	X	X	X	X	X	X	X	X	X	R
Decree declaring as being of national utility the small and medium-scale industries in the northern border area and free zones and perimeters										X	X
Incentives for the establishment of commercial centres in border areas								X	X	X	X
Fiscal											
Law to promote new and necessary industries	X	X	X	X	X	X	X	X	X	X	*
Decree providing incentives for associations and economic units to promote Mexico's industrial and tourist development									X	X	X
Decree declaring as being of national utility the small-and medium-scale industries in the northern border area and free zones and perimeters										X	X
Agreement providing that exporters of domestically manufactured products be refunded indirect taxes and the general import tax	X	X	X	X	X	X	R	X	X	X	R
Tax refund to foreign trade enterprises							X	X	X	X	R
Subsidy of up to 75 per cent of taxes on imports of machinery used basically to produce for export or to manufacture capital goods											R
Income tax law								R	X	X	X
Decree indicating the incentives, assistance and facilities that will be provided to industrial enterprises referred to in decree of 23 November 1971 (Decentralization decree)								X	X	X	X

/Table 44 (cont.)

Table 44 (continued)

Instruments	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Tax refund to producers of manufactured products sold in the northern border area free zones and perimeters							X	X	X	X	R
Incentives to small miners											
Exemptions in connexion with temporary imports and exports	X	X	X	X	X	X	X	X	X	R	X
Financial											
National Foreign Trade Bank	X	X	X	X	X	X	X	X	X	X	X
Guarantee Fund for Small-Scales and Medium-Scale Industry (FOGAIN)	X	X	X	X	X	X	X	R	X	X	X
Fund for the Promotion of Exports of Manufactured Products (FOMEX)	X	X	R	X	X	X	X	X	X	X	X
National Fund for Pre-investment Studies (FONEP)			X	X	X	X	X	X	X	X	X
Industrial Equipment Fund (FONEI)						X	X	X	X	X	X
National Industrial Promotion Fund (FOMIN)								X	X	X	X
Nacional Financiera, S.A. (NAFINSA)	X	X	X	X	X	X	X	X	X	R	X
Fund for the Promotion of Textile and Cotton Exports	X	X	X	X	X	X	X	X	X	X	X
Compañía Mexicana de Seguros de Crédito (COMMSEC)						X	X	X	X	X	X
National Fund for the Promotion of Artisan Activities	X	X	X	X	X	X	X	X	X	X	X
Technical assistance											
Decree indicating the incentives, facilities and assistance that will be provided to industrial enterprises referred to in decree of 23 November 1971 (Decentralization decree)								X	X	X	X
Law establishing the Mexican Foreign Trade Institute						X	X	X	X	X	X
Nacional Financiera, S.A.	X	X	X	X	X	X	X	X	X	R	X
Inter-Ministerial Commission for the Economic Promotion of the Northern border area and free zones and Perimeters								X	X	X	X

/Table 44 (concl.)

Table 44 (concluded)

Instruments	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Committee Co-ordinating the Promotion of Foreign Trade		X	X	X	X	X	X	X	X	X	X
Commission for the Protection of Mexico's Foreign Trade		X	X	X	X	X	X	X	X	X	X
Tariffs											
Subsidized rail freight rates for exports of manufactures							*			X	X
National Border Programme	X	X	X	X	X	X	X	X	X	X	X
Subsidized rail freight rates for national manufactures producing supplies for border areas	X	X	X	X	X	X	X	X	X	X	X
Other											
Law for the promotion of Mexican investment and the regulation of foreign investment									X	X	X

Note: X = in force; R = reforms; * = abrogated.

/The provisions

The provisions aimed primarily at increasing exports, and resulting therefore in a significant change in the income of exporters, are considered to be of basic importance.

Concurring incentives are legal provisions essentially aimed not at the promotion of industrial exports but at other objectives, such as, for example, encouraging the establishment of new industries. Here, at first glance, the effect for the exporter is of minor importance.

Lastly, there are other benefits the objective of which is not exports of industrial products per se; rather they are complementary, such as obtaining loans or sales abroad through intermediary enterprises. Here too it might be thought at first glance that the effect is not very significant.

For a full understanding of the possible effect of a promotion measure, consideration must be given to the possible alternatives to exporting with which the manufacturer is faced. Normally, it would seem that the other manner in which he can use his resources is to produce for the domestic market. Thus, the comparison he must make would be between the actual protection for domestic sales and the actual subsidy resulting from exports. If a product enjoys an actual rate of protection of 20 per cent for domestic sales and an actual subsidy of 15 per cent for exports, there will, ceteris paribus, be no incentive to export. Of course, there may be cases where these assumptions are not fulfilled: to the extent that domestic and external sales are not competitive (for example, the existence of idle capacity), it might be argued that the import factor would be the relation between the marginal income and cost, including the income represented by the fiscal incentive. Another possibility is that advantage may not have been taken of the margin afforded by the actual protection, which would therefore no longer be significant. Of course, in calculating the actual protection or subsidy, the exchange rate used plays an all-important role.

A fact which should also be borne in mind is the real possibility of being able to sell products abroad, which is determined, among other factors, by the price prevailing in the external markets and the price at which Mexican exporters can offer their products.

To the extent that industrial exports depend on the competitive conditions of domestic supply, i.e., the relation between international prices and domestic costs, the exchange rate plays a crucial role. In

/this respect,

this respect, it should be noted that already in 1960 one author estimated that the peso was overvalued by 20 per cent with respect to the United States dollar.1/ This overvaluation may be considered to be even higher at the present time. Although the subsidy implicit in the tax refund, preferential interest rates, etc., partly compensates for the above effect, it must be borne in mind that as the gap determined by the lack of adjustment of the exchange rate widens, the effectiveness of the promotional measures declines. Clearly, the determination of exchange adjustment mechanisms depends on a group of economic, social and political elements, the study of which lies outside the scope of this study. In contrast, it should be noted that in order to keep the original incentive fully in force, it should be gradually increased in scale to compensate for the above-mentioned trend of the exchange rate, while taking into account the limitations deriving from the provisions of the General Agreement on Tariffs and Trade (GATT). In this respect, a large number of enterprises have noted the greater impact of the Tax Refund Certificates (CEDIS) in comparison with the increase in domestic costs.

The case of a foreign company initiating production for export in various countries may be different. Here, the comparison would no doubt be based on alternative rates of profit and other considerations of overall strategy in the determination of which the export subsidy in each country is not necessarily an important factor, if fiscal "paradises" are excluded. Several interviews confirmed the existence of an overall strategy, as in the case of enterprises in the food, chemical, engineering and non-metallic products branches of industry. Moreover, production for the domestic market has generally predominated in the case of transnational corporations. In these cases there may be conditions deriving from the internal management of the enterprises which therefore limit the applicability of the aforementioned system, particularly when part of the flow of goods is in the nature of trade between firms.2/

Lastly, the competitive position of industry should no longer be considered vis-à-vis sales on the domestic market, but in relation to products imported from other countries.

1/ See Gerardo Bueno "Estructura de la protección en México", Estructura de la protección en países en desarrollo, Bela Balassa and others, CEMLA, 1972, p. 258.

2/ See Eleazar Cota Izaguirre, "Fiscalización de las empresas multinacionales: El caso de México", Revista Difusión Fiscal, July 1975, p. 10.

2. Fiscal incentives

(a) Basic provisions

(i) Triple subsidy. The first incentives intended primarily to promote industrial exports date back to 1961.1/

From the official legal standpoint, these incentives belong to the category of "virtual subsidies". Their practical application is along the following lines: the Ministry of Finance and Public Credit authorizes a payment on behalf of the taxpayer in full or partial compensation for the disbursement he has to make.

The difference between the fiscal exemption and the virtual subsidy - according to Mexican law - is that the former exonerates the parties concerned from the obligation of paying taxes according to a law. On the other hand, the virtual subsidy is in the nature of an agreement whereby the Treasury pays on behalf of the party concerned all or part of his taxes over a limited period, in exchange for his performing certain economic acts. In the case of subsidies for exports and manufactured products, the taxes are paid, and later the subsidy is given to compensate for future taxes.2/

The system of subsidies for industrial exports, also called the triple subsidy, created the following benefits:

(a) Refund of the federal share (1.8 per cent of gross sales) of the tax on commercial income;

(b) "Subsidy" in respect of import duties which may be as high as 100 per cent of the tariff applicable to raw materials and inputs used in processing items likely to find a market outside the national territory, provided such goods represent not more than 20 per cent of the direct cost or when the degree of processing is more than 10 per cent;

1/ Previously, however, special consideration was given to industrial exports in the 1955 Law on the Promotion of New and Necessary Industries referred to later in this study.

2/ See Ifigenia M. de Navarrete, Los incentivos fiscales y el desarrollo económico de México, UNAM, Mexico, 1967, page 42.

/(c) Deduction

(c) Deduction from the company's income for income tax purposes of the increase in the profits attributable to the sale of manufactured products abroad over a period of three years. Subsequently, this subsidy is gradually reduced to 50 per cent of the taxes payable on the increase in profits obtained from export activities.1/

(ii) Provisions relating to the refund of indirect taxes and the general import tax. The provisions currently in force stem from a a Decision adopted on 15 March 1971. It should be noted that the objectives envisaged include not only those concerning the balance of payments but also the need to achieve a higher level of utilization of installed capacity in many branches of domestic industry, with the aim in this way also of reducing costs so as to be able to compete on the world market.

It should be noted further that, in the preamble of the first decision, express reference is made to the co-ordination of fiscal incentives with others, with a view to dealing simultaneaously with all aspects of export trade.

By virtue of the provisions of the Decision of 15 March 1971, it was decided to refund through the Ministry of Finance and Public Credit the net federal share of the indirect taxes payable on a product and its inputs, when the latter are destined for local consumption, provided the product concerned is exported. As distinct from the former system, it should be noted that, in principle, under the new system, up to the total amount of the federal indirect taxes payable on the export product through all the phases of production and sale will be refunded.2/

Eligibility for the tax refund benefits established in this Decision is based on the concept of "degree of domestic manufacture". The provisions specifying this concept (article 10 of the aforementioned

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1/ CEPAL-NAFINSA, La Política, op. cit., pp. 123-124.

2/ See Héctor Vásquez Tercero, Manual sobre los nuevos estímulos fiscales a la exportación de manufacturas, Foncerrada y Vásquez, Mexico, March 1971.

/Decision) are

Decision) are actually meant to refer to national integration, not to a process of industrialization, since the concept of domestic manufacture covers raw materials and semi-finished items which are incorporated in the product. As regards this national integration requirement, the Decision established a minimum degree of integration (referred to in the Decision as "degree of manufacture") of 50 per cent, and stipulated that for a proportion of 50 to 59 per cent the refund of indirect taxes would be 50 per cent, and for a degree of manufacture of 60 per cent and over it would be 100 per cent.

Article 3 of the above-mentioned Decision provides that the Financial Studies and International Affairs Department should establish for each branch of industry the appropriate percentage refund in terms of indirect taxes paid. It must be borne in mind that the tax on commercial income - which is clearly the most important of the indirect taxes that should be refunded - is a multi-stage or turnover tax, so that in each case the studies carried out by the Department of Financial Studies should be based on an average for the sector of industry concerned. Any deviations from the average will depend, first, on specific taxes that may be levied on certain production items within the sector, and on different marketing and production methods, in view, as noted earlier, of the nature of the tax on commercial income.

In the case of this kind of tax, it is practically impossible to ascertain the exact amount of the tax included. In practice, therefore, a few rates are generally assigned in order to determine the tax refunds for the various industries, even though such rates are not exactly the same as the amount paid. From the standpoint of a simple and direct application of the principle involved, a value-added tax on sales would be preferable, but other factors must obviously have influenced this decision.1/

The studies carried out in each case by the Department of Financial Studies are based on indirect taxes actually paid. By virtue

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1/ See Carl.S. Shoup, Public Finance, London, 1969, pages 211 and 263.

of the recent changes referred to later in this study, and taking into account the above observations on the degree of manufacture, etc., the actual refunds currently in force are 11 per cent, 7 per cent and 5 per cent of the sales price. This only covers indirect taxes, excluding the general import tax. The different refund rates are basically justified because the amount of the indirect taxes payable on a product is directly dependent upon the degree of domestic manufacture.1/ In some cases, therefore, refund rates of over 11 per cent and up to a maximum of 15 per cent were granted. Tax Refund Certificates, however, are applicable both to indirect taxes and to the refund of the previously paid general import tax in respect of imported inputs included in the export item (article 5 of the aforementioned Decision). It is pointed out that there is another system which also covers exporters, i.e., the temporary import system; for this reason, article 5 adds that a tax refund may be requested in respect of imported inputs when they are not covered by the temporary import system.

In order to request a refund of the import tax, the importer should first have obtained the import permit from the Ministry of Industry and Trade if the goods are subject to the prior permit system (article 6). As regards the procedure for obtaining the refund, article 7 of the Decision establishes that manufacturers should apply to the Ministry of Finance and Public Credit for prior recognition of this right; in order to recognize it, according to the wording of article 7, the Financial Studies and International Affairs Department of that Ministry shall consider the structure of the capital of the enterprises concerned, adequate domestic supply, their contribution to the balance of payments and the use of locally produced inputs. In practice, the basic factor considered is their contribution to the balance of payments, the question of adequate domestic supply usually being resolved by the establishment of

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1/ Manual sobre los nuevos estímulos fiscales a la exportación de manufacturas, op. cit., page 3.

/export permits.

export permits. In some cases, moreover, this principle was even expressly incorporated in legislation prohibiting the export of items needed for domestic consumption or production. The structure of the capital of these enterprises meant its national or foreign ownership; in practice, however, this criterion was not considered either.

In accordance with article 9, as mentioned above, Tax Refund Certificates are used for refunding both indirect taxes and the general import tax, they are non-transferable and the rights they confer expire after five years from the date of issue. Another limitation has been created in that the above-mentioned article stipulates that these certificates shall be used exclusively for the payment of federal taxes not earmarked for a specific purpose. Among the taxes payable with CEDIS are not only those for which the exporting company is responsible, but also others in respect of which it merely acts in an intermediary capacity, such as taxes on the product of labour, royalties, etc., paid to third parties. In view of the reimbursement or refund function of CEDIS, they are not considered as taxable for income tax purposes.1/ In accordance with subsequent provisions, however, the official banking system discounts them for exporters, on request, at a 10 per cent discount rate.2/

In article 11 of the Decision it is further established that the Ministry of Finance and Public Credit will not grant or will limit the benefits of this provision when it considers that the objectives concerned are fulfilled by means of other measures of a fiscal nature designed to promote exports, or when other benefits are obtained through these such as production quotas or premiums. The aim of this provision is, for example, to avoid granting tax benefits in excess of what has actually been paid. The possibility of enjoying benefits under more than one legal provision occurred, in particular, during the period in which the Law on New and Necessary Industries

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1/ See Héctor Hernández Cervantes, "El subsidio como mecanismo de fomento económico", Revista Difusión Fiscal, September 1975, page 26.

2/ Cinco años de comercio exterior, 1971-1975, op. cit.

/was in

was in force, which permitted other benefits to be obtained that were not contemplated in this Law (for example, reductions in income tax). In other words, article 11 authorized the Ministry of Finance and Public Credit to grant benefits in addition to those in respect of new and necessary industries, provided they did not relate to the same tax. Moreover, the actual possibility of being able to export is kept in mind in all cases, taking into account manufacturing costs and international prices, which limited the concession of additional advantages, since the decision states that "the Ministry of Finance and Public Credit shall not grant ... when in its view the objectives concerned are fulfilled by means of other measures".

Article 12 establishes that if the export item is liable to the general export tax tariff, the benefits referred to in this decision shall not be granted. In principle, this provision is easily understandable, since basically the items which are still liable to this tax have a low degree of processing, so that the present benefits granted for manufactured products would not be applicable to them.

By virtue of the above-mentioned decision, article 15 establishes that the requirements mentioned in the previous articles could be modified in those cases where, in the opinion of the Ministry of Finance and Public Credit, a substantial contribution is made towards increasing exports. In accordance with this provision, the Ministry of Finance and Public Credit may grant the benefits applicable under the aforementioned decision even in the case of products with a degree of processing lower than 10 per cent, a concept which will be referred to again later.

This Decision was later modified by virtue of a subsequent decision of 26 August 1975. Among the changes may be mentioned, first, that the so-called "degree of domestic manufacture" that had been established as a minimum was reduced to 40 per cent from the previous level of 50 per cent. Thus, the refund of indirect taxes amounts to 50 per cent when the degree of domestic manufacture is from 40 to 49 per cent, 63 per cent when the degree of domestic manufacture is

/from 50

from 50 to 59 per cent, and 100 per cent when the degree of domestic manufacture is 60 per cent and over. In practice, therefore, the actual rate of refund (on the sales price) is 11 per cent, 7 per cent and 5.5 per cent. The table that has been drawn up, or in other words the different tax refund coefficients, essentially represent a form of coming closer to the tax actually paid by the enterprises, rather than a differential incentive.

In addition to the so-called "degree of domestic manufacture" which by virtue of the provisions defining it, as noted earlier, actually represents the concept of "national integration", another requirement included in the latest decision is the "degree of processing". This concept is quite clear because only what may be interpreted as value added is computed, since the various production cost items do not include raw materials and semi-finished and finished articles incorporated in the product, or their containers placed at the plant responsible for the final manufacturing process in accordance with article 10 of the latest decision. It has been established that the degree of processing should be not less than 10 per cent. This requirement is not, however, of an absolute nature, since it is expressly established that the Ministry of Finance and Public Credit may withhold the incentives referred to in this decision when the export product shows a low degree of processing, or when only a small part of the processing is performed in Mexico, most of it taking place abroad.

According to the calculations made in the above-mentioned UNIDO study, the virtual subsidies (CEDIS) in force as from 1971 are estimated to have a considerable potential impact. In support of this statement the study cites the vigorous growth of industrial exports which coincided with the increasing use of CEDIS, as shown by the marked increase in the number and coverage of the CEDIS extended (see table 45), and by the subsidy represented by the lower rate of interest of development credit. The decisive influence of these incentives does not, however, appear wholly convincing, if consideration is given to another statement contained in the same study to the effect

/Table 45

Table 45

MEXICO: TOTAL VALUE OF TAX REFUND CERTIFICATE (CEDIS) EXTENDED TO EXPORTERS, 1971-1975[a/]

	Millions of pesos at current prices
1971	116.9
1972	489.3
1973	1 020.9
1974	1 560.9
1975	1 850.0[b/]

Source: Information supplied directly by the Ministry of Finance and Public Credit.

Note: Approximately 98 per cent of this value represents the refund of indirect taxes. The remainder includes other items.

a/ Except those applicable to import substitution.
b/ Preliminary figure.

/that the

that the bias against exports compared with sales on the domestic market continues to be substantial.1/ According to the interviews held, the decision will be especially advantageous for enterprises in the textile sector, for example.

Moreover, the fact that the actual protection in favour of domestic sales continued to be higher than the actual subsidy in favour of exports does not mean either that the changes in the latter have not influenced the growth of sales of industrial products abroad, but they must have been accompanied by other elements which constituted the basic factor for the products concerned: in this connexion, mention should be made of the existence of idle capacity in several branches of industry, which is one of the typical aspects of the structure of industry in developing countries. Added to this in the case of Mexico is the recession that took place in 1971 and the serious decline in economic activity in 1975. These trends were no doubt the cause of the greater propensity on the part of manufacturers to increase their external sales.

These examples also show that an appraisal of the effectiveness of economic policy instruments can be made only on the basis of a study of the conditioning factors of the world market and domestic supply.2/

1/ UNIDO/TC.310, 29 May 1974, pp. 70-73.

2/ In this respect, it was stated in an analysis of Mexico's foreign trade in 1975 that the situation had been much more favourable in the previous year, particularly with respect to exports, in view of the unexpectedly strong world demand for Mexican products, a demand which disappeared overnight. The end of the previous year, as a result of the recession in the United States and other industrialized countries and a certain degree of negligence in offering Mexican products abroad, marked the beginning of a period of stagnation of Mexican exports. (Special report in Expansión, 29 October 1975. See the statements made by Mr. Eugenio Clariond Reyes, President of the National Association for the Promotion of Mexican Exports (ANAFEM), to the effect that it is common practice to invest only sufficient to meet the requirements of the domestic market, paying attention to external sales only when there is idle capacity and always on a sporadic basis. See also other comments in this respect (pages 11 et seq.).)

/(iii) Subsidies

(iii) Subsidies for imports of goods indicated in the Decision of 26 August 1975. By virtue of this legal Decision, subsidies are granted for imports of capital goods when these contribute to the export of manufactured products, and when, in their turn, they are used to product capital goods. Only the former case will be dealt with here. The Decision stipulates that this benefit will be granted only when the applicant shows that the goods he wishes to import are not produced in Mexico, or that those that are produced in the country are not of the type required. In order to obtain this benefit, the Ministry, through its Promotion and International Affairs Department, will determine in each specific case whether the machinery and equipment to be imported can be used for the production of export items or to produce capital goods, on the basis of (1) the export background of the applicant, and (2) the export programme to be carried out with the imported goods or, where appropriate, the programme for the production of capital goods.1/

The applicant must furnish a guarantee for the value of the tax in respect of which he is granted a subsidy, which is duly cancelled if he fulfils the conditions laid down in the Decision. According to the text of the law, the requirement is that within a period of two years exports should total a minimum value of four times the foreign exchange spent on importing a single machine, and three times that spent on imports representing a substantial enlargement of the company's facilities aimed at considerably increasing its production capacity, or on a new plant.

The requirement established for exports is of an incremental nature, that is, exports must increase at least three- or four-fold, as the case may be, in order to obtain the benefits of this law. The

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1/ It should be noted that the Decision of August 1975 invalidated the so-called rule XIV which, by granting a 65 per cent subsidy for imports of machinery, had among other effects that of discouraging the production of capital goods in Mexico; rule VIII facilitating imports of parts or spare parts is still in force. (See Luis Bravo Aguilera, Las nuevas tarifas de los impuestos generales de importación y exportación de México.)

minimum value indicated is four times the amount of foreign exchange in the case of machinery, and three times in the second case. This condition apparently entails a fairly rapid turnover of capital through external sales. Nevertheless, it has been affirmed in this respect that the relevant provisions were discussed with CANACINTRA and industrial groups which gave them favourable consideration.1/

Although, in principle, imports of capital goods are permitted only when they are not produced in the country, attention has been drawn to the fact that this measure may conflict with another component of the group of measures introduced to alleviate the balance of payments position, i.e., that of stimulating the domestic production of capital goods.2/

(iv) Temporary import operations. As noted earlier, the manufacturer can obtain a refund of the import taxes paid if he duly fulfils the requirements in terms of national integration, degree of processing, etc. In place of this, he may have recourse to the temporary import system. Of course, this alternative is preferable when it is quite certain that the exports will actually be effected.3/

The system currently in force is based on a decision adopted in 1975. To be eligible for these temporary import benefits in accordance with the relevant decision, the degree of national integration required is only 20 per cent. (It is determined in the same way as that applicable to the tax refund.) This degree of integration has been reduced in the course of time. That stipulated in the rules in force as from 1971 was 40 per cent, and previously it had been 60 per cent. The temporary import system covers the following items: raw materials; semi-manufactured products; finished products; containers; moulds, dies and matrices; components, parts,

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1/ Numérica, Nº 12, p. 14.

2/ Inter-American Council for Economic and Social Affairs (CEPCIES), Situación, principales problemas y perspectivas de desarrollo de México, OEA/Ser.H/XIV, November 1975, page 92.

3/ See Héctor Vásquez Tercero, Devolución de impuestos, page 2.

appliances, utensils and apparatus when used to complement apparatus, machines, or equipment intended for export; and machines, apparatus and equipment when used for repair or reconditioning work.

The requirements are generally the same as those in force for the refund of taxes. Thus, article 20 stipulates that authorization of temporary operations shall be subject to the prior study and opinion of the Financial Studies Department, which will consider for this purpose the structure of the capital of the enterprise, adequate domestic supply, the contribution to the balance of payments, and the use of locally produced inputs.

At present, the period during which inputs imported on a temporary basis may remain in the country is one year, which may be extended by an additional year.

(b) Concurrent incentives

The main incentives in this group are those basically aimed at industrial development itself.

Although there had already been some previous legislation - a decree in 1926, the 1941 Law on Incentives for Changes, and the Law on the Promotion of Processing Industries - reference is made here only to the Law on the Promotion of New and Necessary Industries which was in force from 1955 to 1975, when it was repealed.1/ The benefits established by virtue of this Law were applicable to industries that were classified as "new" or "necessary", which in their turn were divided into "basic", "semi-basic" and "secondary", as criteria for determining the duration of the benefits.2/

As regards the subject of interest here, an industry necessary for the general economy of the country was considered to be one for which, in order to be able to export its finished or semi-finished products - with a degree of national processing of not less than

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1/ See Gabriel Zorrilla, "Estímulos fiscales para la industrialización", Revista Difusión Fiscal, December 1975.

2/ See article 1 of the Law on the Promotion of New and Necessary Industries.

/60 per cent

60 per cent of the direct cost of production - it would be indispensable to obtain benefits in respect of one or more of the following taxes (article 3): (i) general export and additional taxes; (ii) stamp tax; and (iii) tax on commercial income.

They could also be granted income tax reductions of up to 40 per cent.

A maximum period of 10 years was established for these benefits.

Although the main purpose of the Law was to promote industry - basically through a process of import substitution - it also provided for exports of manufactured products. It should be noted that in spite of this being an additional objective - which is the reason why the Law is included in this section - the benefits granted could exceed those accorded through fiscal incentives directly aimed at promoting exports referred to in the previous section. Added to this are the above observations regarding the possibility of obtaining benefits extended under more than one legal provision.

A number of criticisms have been made of this Law, to the effect that regional development had not been taken into account, and that it basically benefited large-scale enterprises and foreign investment. From the standpoint of export promotion, it is stated in a study that the Law benefits those industries using a higher percentage of imported machinery, equipment and raw materials, as borne out by the fact that the heaviest fiscal sacrifice consists of taxes on imports.1/ In this respect, it should be noted that exemptions from import taxes were not applicable in the case of exports of manufactured products. It may therefore be inferred that the Law had its greatest impact in the area of import substitution. This impression is confirmed by the above-mentioned study, which stresses the fact that granting exemptions the novelty of the product and its substitution for imports were considered of fundamental importance, while other criteria conducive to greater industrial development were ignored.2/

1/ Los incentivos fiscales y el desarrollo económico de México, op. cit., page 37.

2/ Ibid.

/During the

During the years 1972-1975, concurrently with this Law there was also legislation in force aimed at the decentralization of industry. In accordance with a decree of 19 July 1972 (on the basis of legislation of 23 November 1971), the establishment and enlargement of enterprises which the Government deemed necessary to promote through the provision of fiscal incentives were declared to be in the national interest.1/ One of the main objectives was to increase exports. An essential feature of this decree was that such fiscal measures were only applicable if the requirements with regard to the location of the establishments were fulfilled; moreover, the percentage reductions in taxes depended on the areas indicated in the law.

In order to proceed with the criterion regarding the decentralization of industry, recourse was had to the political division of the municipio, and for that purpose Mexico was divided into three areas: area 1, comprising the densely populated industrial municipios (Federal District, State of Mexico, Monterrey and Guadalajara); area 2, consisting of municipios adjacent to the first area; and area 3, comprising the rest of the municipios in the country. On the basis of this division, no fiscal benefits whatsoever are granted to area 1, all those envisaged in the decree to area 3, and intermediate benefits to area 2.

Full or partial exemption from the following taxes may be requested under this law: import and additional taxes on machinery, equipment, raw materials, parts and spare parts; the stamp tax; federal receipts from the tax on commercial income; special taxes on the first sale (exemptions from all these taxes range from 50 to 100 per cent); income tax on profits obtained from the sale of

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1/ The basic objective of this legislation was that industry should be established outside the regions in which there was the heaviest concentration of industry in the country, i.e., the Federal District and municipios adjacent to the State of Mexico, Monterrey and Guadalajara (see Héctor Hernández Cervantes, "El subsidio como mecanismo de fomento económico", Revista Difusión Fiscal, September 1975, page 24).

/real estate

real estate included in the fixed assets of enterprises (a reduction of 60 to 100 per cent); and, lastly, income tax on the total income of enterprises (10 to 40 per cent).

The periods envisaged for these benefits vary between 5 and 10 years, depending on the area in which the industry is established and the national or regional economic importance of the activity concerned. The industry must have a minimum of 51 per cent of Mexican capital. Although this requirement is not indicated in the Law on New and Necessary Industries, it has been enforced ever since the Law came into effect. Other requirements are a degree of national integration of 60 per cent, that the management of the enterprise be in Mexican hands, and that there should be a Mexican majority in the management councils.1/

In addition, the Law provides the possibility of obtaining authorization for a rapid depreciation of investment in machinery and equipment for purposes of the payment of income tax.2/ There are also a number of other requirements which the enterprises must fulfil in order to enjoy the benefits extended by the Law.

In any case, these benefits can be obtained as an incentive to exports only if all the other requirements are fulfilled.

Lastly, a subsidy in the form of rail freight rates has been granted to Mexican manufacturers by virtue of a provision of 23 December 1972. It is equal to 25 per cent of the rail freight rates in accordance with a discretionary concession of the Ministry of Finance and Public Credit, which in exceptional cases may increase it to 50 per cent. In the case of goods dispatched to some station at a sea port, this benefit is applicable only when the goods go out

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1/ "El subsidio como mecanismo de fomento económico", Revista Difusión Fiscal, op. cit., page 25. It is important to note that, according to the decree of 23 November 1971, the incentives are provided without prejudice to any benefits that are being or may be enjoyed by the enterprises under other provisions of a federal nature.

2/ "Estímulos fiscales para la industrialización", Revista Difusión Fiscal, op. cit., page 11.

/of the

of the country by sea, using Mexican ships or foreign vessels which national transport enterprises have had to charter on a temporary basis.1/

(c) Complementary incentives

Economic growth requires a continuing increase in the productivity of the factors of production. To that end, progress in the field of industrial efficiency is particularly necessary. From this standpoint, technological innovations lead to reductions in costs which enable the domestic market to expand and strengthen the competitive position of exports.2/ In this respect, the export of Mexican technology represents an effort which is particularly worth encouraging with a view to thus gradually entering the world market. Notable in this connexion is the incentive for enterprises promoting the export of Mexican technology and services. This benefit consists of a refund of up to the total net federal receipts from indirect taxes on their activities, the whole of which must be set against their expenditure on those activities (article 1 of the Decision).

Certain conditions have been established for the enjoyment of these benefits, among which may be mentioned that the shareholders should be enterprises with a majority share of Mexican capital or a majority of Mexican personnel. A further requirement is an annual increase in the total value of exports of technology.3/

1/ J. de H. and CP, Estímulos fiscales a la exportación y a las ventas fronterizas, 39th edition, Mexico, 1973, pp. 39 et.seq.

2/ "La industrialización latinoamericana en los años sesenta", Cuadernos de la CEPAL, Santiago, 1975, pp. 43-44.

3/ Specifically, article 7 establishes that the enterprises must also achieve a 15 per cent increase in the total value of exports affected by their partners annually with respect to the total value of exports in the 12 months prior to the date of their first export operation. If the stipulated increase is exceeded in any given year, the surplus amount will be considered as part of the increment that should be obtained in the following year or years. When the value of exports effected in the 12 months following the date of the first export operation is doubled, the fiscal incentives to the enterprises promoting such exports will be granted automatically, provided they maintain as a minimum the value exported in the immediately preceding year.

/Stress is

Stress is laid on the obligation of enterprises covered by this decision to prepare promotion programmes for submission to the Ministry of Industry and Trade and the Ministry of Finance and Public Credit. As in the other cases of refunds of indirect taxes, the operation is effected by means of a certificate.1/

There are also fiscal incentives to benefit the foreign trade enterprises. It should be noted that by granting a refund on indirect taxes the relevant provisions lay the bases which enable the marketing departments of industrial enterprises to form specialized consortia at the marketing stage.

The incentive established also consists in refunding indirect taxes and it will be aimed entirely at defraying the expenses entailed in foreign trade operations. This refund amounts to 4 per cent of the exports made through export consortia and service companies.2/

The measures to favour industrial exports also include the refund of the net federal taxes levied on naval enterprises in respect of their transport activities.3/

3. Credit and insurance incentives

(a) Basic provisions

When the methods used in the sphere of credit to carry out the work of promoting industrial exports are considered, the emergence of a set of instruments and institutions devoted specifically to exports support comes into prominence. Thus the predominant aim seems to have

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1/ See also "Medidas para alentar la exportación, la producción exportable y de bienes de capital, y restringir las importaciones", Numérica, Nº 12, September 1975.

2/ The relevant incentives and their application are analysed in greater detail in chapter VI, concerning marketing.

3/ The enterprises have been required to invest at least the equivalent of the total tax refunds in expanding or modernizing their transport equipment, in accordance with an investment programme which must be presented before making requests for tax refunds (Article 4). The refunds are granted in the form of tax refund certificates (Article 2), Numérica, op. cit., p. 28

/been to

been to seek a considerable degree of specialization in the conduct of these operations, which in principle would require the establishment of certain operative rules to co-ordinate the functions of each one.

It is at all events clear that the most important institution which has worked to encourage industrial exports through credit is FOMEX. This is a Federal Government fund administered by the Bank of Mexico, S.A.; the latter, in its capacity as the Central Bank, carries out its function of selectively channelling credit and promoting the exports of Mexican manufactures through this Fund,1/ at differential terms and rates. These rates can be seen in table 46 and it should be borne in mind that the average rate of bank interest in Mexico is currently between 12 and 13 per cent.

It should also be stressed, as has already been mentioned in the introduction to this chapter, that priority has been given to this aspect of economic policy at various times. When from the end of 1973 and during 1974 the Central Bank found it necessary to hierarchise credit in order to combat inflation, financing for the production of goods for export and for their sale by installments was included in the priority credit group.

The various institutions and bodies which operate in the credit sphere are shown in table 44.

A more detailed description of FOMEX, the main source of financing for exports of manufactures, follows below.2/

1/ Fondo para el Fomento de las Exportaciones de Productos Manufacturados, (Fund for the Promotion of Exports of Manufactured Products) (FOMEX), Informe anual de operaciones, 1975, p. 11.

2/ Informe anual de operaciones, 1975, op. cit., p. 1

/Table 46

Table 46

MEXICO: GENERAL FEATURES OF CREDITS

Pre-export

Amortization period:	The period involved in the production of the goods
Form of amortization:	Single payment on maturity
Credit limit:	Up to the direct cost of manufacture of the goods, or up to 70 per cent of the FOB manufacturer's price
Machinery:	Credits are granted on each order or in the case of regular sales abroad on the basis of an average of such sales
Rate of interest:	8 per cent annually, payable on maturity

Sales

Usual length of credit

Semi-manufactured products:	up to three months
Final consumer goods:	up to six months
Consumer durable:	up to twelve months
Machinery and equipment:	up to five years

Annual interest rates

On credits of up to one year:	6 per cent - 7.5 per cent a/
On credits of between one and two years:	7 per cent - 8.5 per cent a/
On credits of over two years:	8 per cent - 10 per cent a/

Source: Fondo para el Fomento de las Exportaciones de Productos Manufacturados (FOMEX), export financing.

a/ When the credits are granted without liability of the exporter.

/The development

The development of the Fund's operations in the last ten years can be seen in table 47. It provides a range of financing in the different stages or sequences involved in the process of exporting manufactures. These operations include, in the first place, what is known as pre-export financing. This consists fundamentally in providing exporters with the resources to cover their working capital needs during the process of producing and storing goods before selling them. Over time, this kind of financing has been improved by simplifying procedures while adapting them better to the needs of exporters. This is the case of financing on the basis of the amount exported in the month preceding the one in which the credit is requested, which has advantages for companies with regular exports. One of the most important features of pre-export financing is its scope, since it can even cover exports of manufactures sold for cash.1/

The growth over time of this kind of credit is shown in table 48. It is also interesting to note that there has been an increasing diversification of the products covered by this kind of financing, which shows a considerable degree of knowledge and specialization on the part of the institution. Table 49 shows the items classified by product groups.

The second type of financing is for sales abroad. (See tables 50, 51 and 52.) When an exporter of manufactures or services contracts with a foreign importer for a credit sale, FOMEX finances the operation by providing the Mexican exporter, via deposit banks or finance companies through which it operates, with the proceeds of the sale at once and a preferential rate of interest.

1/ FOMEX, Informe anual de operaciones, 1974, p. 25.

/Table 47

Table 47

MEXICO: MEXICAN EXPORTS AND FOMEX FINANCIAL SUPPORT, 1964-1975

(Millions of pesos)

	Total exports a/b/		Exports of manufactures as a percentage of total exports	Total c/ exports eligible for FOMEX support b/d/	Export sales financed with FOMEX support	Percentage financed within total exports	
	Mexican	Manufactures c/				Manufactures	Eligible for FOMEX support
1964	12 701	3 345	26.2	1 874	57	1.7	3.0
1965	13 924	3 260	23.4	2 272	127	3.9	5.6
1966	14 535	3 839	26.4	2 876	346	9.0	12.0
1967	13 790	3 849	27.9	2 605	470	12.2	18.0
1968	14 759	4 511	30.6	3 092	679	15.1	22.0
1969	17 312	5 972	34.5	4 673	1 166	19.5	25.0
1970	16 017	5 424	33.9	4 517	1 523	28.1	33.7
1971	17 042	6 811	40.0	5 600	1 900	27.9	33.4
1972	20 816	8 463	40.7	7 163	2 440	28.8	34.1
1973	25 791	11 907	46.2	10 443	3 152	26.5	30.2
1974	35 625	18 747	52.6	16 340	5 055	27.0	30.9
1975	35 733e/	15 023e/	42.0	13 367e/	5 193	34.6	38.8

Source: Fondo para el Fomento de las Exportaciones de Productos Manufacturados (FOMEX), annual reports.

a/ Banco de México, S.A., Investigación Económica.

b/ The new tariff for exports of goods affected the normal process of preparing the figures for 1975, and they are therefore not strictly comparable with those of previous years.

c/ The operations of the international subcontracing companies situated in the free zones and perimetres of the country are excluded from 1970.

d/ FOMEX did not finance all exports of products in the categories eligible for its support, since many sales involve a full payment in cash, and when credit is offered the financing may be provided: (a) by the exporter himself; (b) through the obligatory deposits of the deposit banks and finance companies; and (c) through resources from abroad. The amounts financed by FOMEX in 1964-1968 were paid on the basis of Circular 1530/65; those for 1969-1971 on Circular 1671/69 and for 1972-1974 on Circular 1740/72 of the Banco de México, S.A.

e/ Preliminary figures.

/Table 48

Table 48

MEXICO: PRE-EXPORT FINANCING, 1966-1975

(Millions of pesos)

	Credits financed		Credits cleared		Credits outstanding at the end of each year
	Annual	Accumulated	Annual	Accumulated	
1966	50	50	26	26	24
1967	165	215	149	175	40
1968	183	398	160	335	63
1969	234	632	210	545	87
1970	399	1 031	354	899	132
1971	500	1 531	432	1 331	200
1972	758	2 289	670	2 001	288
1973	1 245	3 534	1 003	3 004	530
1974	1 292	4 826	1 444	4 448	378
1975	1 302	6 128	1 274	5 722	406

Source: Fondo para el Fomento de las Exportaciones de Productos Manufacturados, (FOMEX), annual reports.

/Table 49

Table 49

MEXICO: PRE-EXPORT FINANCING BY PRODUCT, 1975

(Thousands of pesos)

	Amount	Percentage
Total	1 302 385	100.00
Vegetable products	15 134	1.16
Edible fruit	7 538	
Plaiting materials	7 596	
Food, beverages and tobacco	120 510	9.25
Sugars and confectionery	2 621	
Cereal and flour preparations	11 737	
Vegetable preparations	80 065	
Preparations of other foods	8 215	
Beverages and spirits	17 115	
Tobacco	757	
Mineral products	18 224	1.40
Salt, sulphur, gypsum, lime	18 224	
Chemical and related industries	184 138	14.14
Inorganic chemicals	158 529	
Organic chemicals	439	
Pharmaceutical products	957	
Fertilizers	1 757	
Tanning materials	1 613	
Essential oils	12 374	
Soaps and waxes	341	
Albuminoidal substances	6 733	
Other chemical products	1 395	
Plastic materials, rubber and rubber manufactures	14 660	1.12
Plastic materials	2 973	
Natural or synthetic rubber	11 687	
Skins, hides, furskins and their manufactures	16 398	1.26
Skins and hides	6 803	
Leather manufactures	9 595	
Wood, charcoal, cork and manufactures	32 776	2.52
Wood and charcoal	31 013	
Esparto manufactures	1 763	

/Table 49 (cont.)

Table 49 (continued)

	Amount	Percentage
Substances used in the manufacture of paper and paper products	43 923	3.37
Paper and carbon paper	4 727	
Booksellers' articles	39 196	
Textiles and textile products	250 882	19.26
Silk and waste silk	1 288	
Synthetic textiles	11 867	
Wools, hair and horsehair	1 547	
Linen and ramie	7 904	
Cotton	152 955	
Metal textiles	1 193	
Vegetable textile fibres	12 140	
Wadding and felt	17 202	
Knitted goods	17 081	
Woven clothing	27 117	
Other woven articles	588	
Footwear, millinery, umbrellas, artificial flowers	22 978	1.76
Footwear	21 079	
Feathers and feather articles	1 899	
Stone, plaster and glass manufactures	79 497	6.10
Stone manufactures	18 085	
Pottery	14 482	
Glass and glassware	46 930	
Pearls, precious stones, coins	9 374	0.72
Pearls and precious stones	9 374	
Base metals and manufactures	134 948	10.37
Iron and steel castings	104 903	
Copper	8 848	
Nickel	457	
Aluminium	2 323	
Lead	9 065	
Zinc	5 480	
Tools	3 023	
Other manufactures	849	
Machinery and apparatus, electrical material	239 847	18.42
Boilers, machines and apparatus	200 384	
Electrical machines and apparatus	39 463	

/Table 49 (concl.)

Table 49 (concluded)

	Amount	Percentage
Transport material	96 641	7.42
Railway vehicles and material	13 529	
Motor vehicles	75 197	
Maritime and river navigation	7 915	
Precision, medical, musical, image and sound instruments	1 189	0.09
Musical instruments	1 189	
Arms and ammunition	2 679	0.21
Arms and ammunition	2 679	
Other goods and products	18 587	1.43
Furniture and household goods	5 540	
Brushes	233	
Toys	12 401	
Other manufactures	413	

Source: Fondo para el Fomento de las Exportaciones de Productos Manufacturados, (FOMEX), annual reports.

/Table 50

Table 50

MEXICO: FINANCING FOR SALES, 1964-1975

(Millions of pesos)

	Credits financed		Credits cleared		Credits outstanding at the end of each year
	Annual	Accumulated	Annual	Accumulated	
1964	57	57	4	4	53
1965	127	184	50	54	130
1966	346	530	225	279	251
1967	470	1 000	306	665	335
1968	679	1 679	525	1 190	189
1969	1 166	2 845	928	2 118	727
1970	1 523	4 368	1 378	3 496	872
1971	1 900	6 268	1 891	5 387	881
1972	2 440	8 708	2 236	7 623	1 085
1973	3 152	11 860	2 917	10 540	1 320
1974	5 055	16 915	4 362	15 102	1 813
1975	5 193	22 108	5 253	20 356	1 753

Source: Fondo para el Fomento de las Exportaciones de Productos Manufacturados, (FOMEX).

/Table 51

Table 51

MEXICO: FINANCING FOR SALES, BY PRODUCT, 1975

(Thousands of pesos)

	Amount	Percentage
Total	5 192 617	100.0
Animal products	65 385	1.3
Meat and edible offals	65 170	
Milk and milk products	215	
Vegetable products	108 625	2.1
Floricultural products	65	
Edible fruits	63 179	
Coffee, tea, mate	853	
Products of the milling industry	15 737	
Plaiting materials	28 791	
Products of the food, beverages and tobacco industries	223 800	4.3
Meat and fish preparations	1 005	
Sugar and confectionary	831	
Cocoa and cocoa preparation	20 134	
Preparations of cereals and flour	1 340	
Preparations of vegetables	144 304	
Miscellaneous edible preparations	6 958	
Beverages and spirits	39 150	
Tobacco	10 078	
Mineral products	31 165	0.6
Salt, sulphur, plaster, lime	31 165	
Products of the chemical and allied industries	1 900 281	36.6
Inorganic chemicals	1 009 240	
Organic chemicals	506 618	
Phamaceutical products	29 343	
Fertilizers	99 131	
Tanning extracts	31 163	
Essential oils	9 476	
Metalic chemicals	21 658	
Albuminoidal substances	12 744	
Explosives	3 177	
Photographic products	154 947	
Miscellaneous chemical products	22 784	

/Table 51 (concl.)

Table 51 (concluded)

	Amount	Percentage
Plastic materials, rubber and rubber manufactures	28 170	0.5
Plastic materials	21 095	
Natural or synthetic rubber	7 075	
Hides, skins, furskins and articles thereof	37 732	0.7
Hides and skins	10 621	
Leather articles	26 534	
Furskins and manufactures thereof	584	
Precision, medical, musical, image and sound instruments	33 299	0.6
Optical instruments and apparatus	24 672	
Clocks and watches	1 950	
Musical instruments	6 677	
Arms and ammunition	9 943	0.2
Arms and ammunition	9 943	
Miscellaneous goods and products	90 592	1.7
Furniture and furnishings	7 843	
Carving and moulding materials	5 830	
Brushes	1 581	
Toys	54 219	
Miscellaneous manufactures	21 119	
Technical services and Mexican equipment	14 553	0.3

Source: Fondo para el Fomento de las Exportaciones de Productos Manufacturados, (FOMEX), informes anuales.

/Table 52

Table 52

MEXICO: FINANCING FOR SALES, BY TYPE OF PRODUCT AND LENGTH OF CREDIT, 1975

(Thousands of pesos)

Length of credit	Total	Percentage	Consumer goods		Production goods		Services
			Non-durable	Durable	Non-durable	Durable	
Total	5 192 617		384 965	740 703	3 120 131	914 265	14 553
Percentage	100.0		7.4	14.3	60.4	17.6	0.3
Up to 1	466 935	9.0	48 564	130 812	254 003	33 432	124
From over 1 to 2	1 376 039	26.5	206 637	61 577	1 061 794	46 031	-
From over 2 to 3	1 412 227	27.2	74 229	273 554	873 544	190 900	-
From over 3 to 6	1 556 890	30.0	49 469	230 314	827 970	449 137	-
From over 6 to 9	46 035	0.9	3 554	18 296	8 162	16 023	-
From over 9 to 12	114 044	2.2	2 512	14 813	66 722	29 997	-
From over 12 to 24	16 773	0.3	-	6 207	320	10 238	-
From over 24 to 60	140 948	2.7	-	960	28 974	108 466	2 548
Over 60	62 726	1.2	-	4 170	16 634	30 041	11 881

Source: Fondo para el Fomento de las Exportaciones de Productos Manufacturados, annual reports.

/During the

During the last year a large number of companies also benefited from "package financing", which consists in providing them every month with financing in an amount equal to the sum of their exports during the average length of time which is consumed before they receive the proceeds of the sale. It is worth mentioning that production goods occupy a privileged position, receiving financing of over 4,000 million pesos, which represents 78 per cent of the total. The lengthening of the credit is of particular importance in the financing of capital goods, in the face of international competition benefiting from significant facilities in this field.1/ In all these credit operations it should be borne in mind that it has been the declared objective of FOMEX to make the exporter of Mexican manufactures competitive with the sellers of other countries in terms of credit and its terms. Here again, there is a diversification both of product and of destination, in addition to what we have already said about production goods.

FOMEX's third kind of operation consists in guarantees against so-called political risks to protect Mexican exporters in respect of the credits they grant their clients abroad. These guarantees are provided not only for exports of manufactures with FOMEX financing but also for credits for exports of Mexican raw materials. Liabilities arising from guaranteed operations at 31 December 1975 stood at 431.7 million pesos, compared with 354.3 million in 1974. Through these guarantees the Fund covers up to 90 per cent of guaranteed credits of Mexican exporters or credit institutions. The risks included by this kind of guarantee are the following: inconvertibility or untransferability of the funds which the importer and his co-maker, if there is one, pay to the authorized institution in his country; default due to the seizure or confiscation of the goods of the importer and his co-maker, if there is one, by a government authority; default as a result of regulations of a governmental character which prevent the importer and his co-maker from making the payment; failure to pay because of non-performance by the importer and his guarantor, if there

1/ Incentives for industrial exports, op. cit., p. 10.

/is one,

is one, on condition that the one or the other should be a bank or public institution deemed acceptable by the trustee. Thus the Fund provides guarantees exclusively against political risks, i.e., in the case of failure to repay the credit through circumstances other than bankruptcy on the part of the debtor.

It should be borne in mind that, as is pointed out above, FOMEX provides this preferential financing (in terms of interest rates and length of credit) through its banking and financing institutions. It is not surprising, therefore, that it has mostly benefited companies of some size or that it normally works with them. However, the impression was received from our interviews that some large companies did not use the FOMEX machinery or had only done so very recently because they basically depended on their own resources. Furthermore, FOMEX is aware of the restricted access to traditional bank financing machinery by small- and medium-sized companies and has begun an experimental programme of supervised credit in which greater weight is attached to the merits of a project than the real guarantees provided.1/

However, it is not necessary, in the first instance, to resort to intermediate credit institutions. Exporters can go directly to the FOMEX offices to raise their problems and queries about available financing terms.2/

Among the various possibilities of export financing, special mention should be made of credits for exports of Mexican services. Here there is a tendency for exports of technical services to be included in a package of exports of machinery and equipment constituting a plant or installation. In the introduction to this chapter we mentioned the possible importance of services or payment for technology for the balance of payments, as well as its crucial importance for the

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1/ Informe anual de operaciones, 1974, op. cit., p. 12.

2/ "La participación del FOMEX se incrementa", Expansión, op. cit., p. 89.

/achievement of

achievement of autonomous development. From this standpoint the support given to exports of technology is particularly important.

In order to obtain sufficient resources to satisfy the needs of exporters, FOMEX has entered into credit arrangements with different external institutions, including credit lines obtained from the Inter-American Development Bank and, through the Nacional Financiera S.A., with the Bankers Trust of New York. The amounts obtained varied between 10 and 20 million dollars.

FOMEX has also granted credit lines to some international financial institutions which in turn grant them to companies of the different member States, primarily for the acquisition of Mexican goods and services for use in their economic development. This is the case of the operations carried out with the Corporación Andina de Fomento and the Banco Centroamericano de Integración Económica. Once again there is a great diversity of techniques to ensure that the Mexican exporter is in a competitive position in terms of the various forms of credit he can exploit. The actual mechanisms through which the credit is provided is re-discounting, for which a number of conditions have been imposed, including, in particular, the requirement of a percentage of processing - not less than 50 per cent - in the direct cost of the goods for whose manufacture, stocks and credit sales abroad the financing is provided. It is even possible for the trustee to establish for some products a higher degree of domestic participation than indicated.1/

We have already mentioned the growth of FOMEX operations; it is also worth mentioning the promotion campaigns it has carried out, both among exporters and among credit institutions themselves.

There is also a clear desire on the part of FOMEX to make the credit departments of banks more sensitive and less inflexible in the granting of credits because of the different characteristics of export credits compared with domestic credits.2/

1/ FOMEX, Mexico-Grupo Andino-Argentina-Brasil, Mexico City 1974, p. 51.

2/ Expansión, op. cit., p. 98.

/Another trust

Another trust which operates as a dependency of the Bank of Mexico is the Fondo de Equipamiento Industrial (FONEI). As its name indicates, its purpose is to finance industrial studies and projects to test the competitiveness of all kinds of domestic products inside and outside México. The credits in question provide long-term bank financing and private investment in two fields of equal importance for the Mexican economy: exports and competitive import substitution.

Thus, unlike FOMEX which promotes current operations, the objective here is industrial plant and equipment, i.e., the investment companies have to make.

During 1975, FONEI received nearly 40 requests for credit support, drew up 38 pre-assessment studies and assessed the technical, economic and financial merits of 18 projects. Authorization was given for the financing of the latter, as well as for two credit increases for three feasibility studies. As a result, 8 new companies were created and 13 approved for the improvement of existing companies. Of this total of 21, 6 are export companies and another 6 are dual, i.e., play the twin role of exporting and replacing imports.

The benefits received by the exporter are of different kinds. It may be assumed that in general the most important is the reduction of the cost of financing. It should be emphasized here that the interest rates for export promotion have remained fixed since 1968, as opposed to the rising trend of normal interest rates (see again table 46). To estimate the total effect of this preferential interest rate, it would have to be related to the total value of exports and the difference between the two rates. In 1974 it was estimated that the subsidy to the cost of credit represented 1.8 per cent of the value of industrial exports.1/

In addition, access to credit is easier, the types of operation are broader and the credits longer. This is, of course, particularly important in the case of companies which usually operate to a small extent in the banking system. There is also the reduction of risks.

1/ UNIDO/TC.310, op. cit., p. 69.

/In sum,

In sum, to consider the reduction in the financial cost alone is to under-estimate the full effect of the benefit received, but it is of course practically impossible to quantify the other effects.

(b) Other institutions

There are a number of credit institutions whose basic goal is not directly to promote industrial exports or the related investment but which may also help to promote them inasmuch as they facilitate financing for companies in the industrial sector, which can resort to them if their production is intended for the external market as well. They include the following in particular:

(i) The Fondo Nacional de Estudios de Preinversión (FONEP), which channels investment to projects located in places which are thought to have the best growth potential. The Fund offers investors financial aid and technical advice to carry out pre-investment studies so that the businessman may be in a position to know the technical, economic and financial viability of their projects, as well as how to obtain the best location, most suitable technology and most efficient organization, in addition to other factors such as the potential of the domestic and international markets, in the long and the short term.

FONEP promotes such studies by granting credits in amounts of over 25,000 dollars at an interest rate of 7 per cent annually on balances, and with an amortization period of between 3 and 8 years according to the size of the credit and with grace periods of up to 24 months according to the length of the study.

It should be emphasized that export promotion is one of the criteria taken into account in the selection of studies.1/

(ii) The Fondo de Garantía y Fomento a la Industria Mediana y Pequeña (FOGAIN). This Fund was established in 1954 and is managed as a Trust by the Nacional Financiera S.A. According to existing regulations, the category of medium and small industries includes

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1/ Cf. Pedro Galicia Estrada "El Fondo Nacional de Estudios de Preinversión", El mercado de valores, año XXXIV, Nº 34, 26 August 1974, p. 940.

industrial companies whose net worth is not above 25 million pesos nor below 300,000 pesos, although in special cases smaller companies receive credits.

The rates of interest applied by FOGAIN vary between 10 per cent and 12 per cent according to the zone in which the company seeking the credit is located.

(c) Export credit insurance

This activity is divided between two bodies: the Banco de Mexico, S.A., through FOMEX, which provides export credit insurance against so-called extraordinary risks; and the Compañía Mexicana de Seguros de Crédito, S.A., which covers what is known as commercial risk.

As was explained above, FOMEX provides guarantees which protect exporters against the so-called political risks to which export credits are exposed. The Fund also has a credit line for operations to offset the high cost of external bank guarantees.

The Compañía Mexicana de Seguros de Crédito, S.A., (COMESEC), covers so-called commercial risks, (bankruptcy of the purchaser and prolonged default) indemnifying the exporter in the case of loss for such reasons.

There are two policies: one is global and covers all credits for a period of less than one year, the other is specific, for the medium and long terms and large amounts, and is generally used for capital goods. COMESEC covered export credit risks for amounts of approximately 500 million pesos per month on average in 1975. It was estimated that at the end of 1975 there was a 50 per cent increase in the volume of annual operations of the company, which was also the case in 1974.1/

4. Quantitative restrictions

Basic situation

Quantitative controls in Mexico appear to be among the highest in Latin America.

Although the criticisms which may be levelled against the use of quantitative restrictions are well known - their lack of relation to external prices, additional income for intermediaries and not the Treasury, as well as their administrative complexity which leads to

1/ Expansión, the business magazine of Mexico and Central America, October 29, 1975.

/delays and

delays and may have other undesirable consequences 1/ - it should be added that they have been handled flexibly, inter alia to guide the investment decisions of domestic or foreign businessmen, to bring about the integration of some industries or restrict imports, when the balance-of-payments problems worsened.2/

The system of import licences for goods is particularly important in the system of quantitative controls. For the purposes of this study, what is important is that in the case of some products licences have been granted to promote exports by permitting products to be imported from abroad up to the equivalent of the value of sales outside the country which the businessmen undertook to make.3/ This kind of link was applied to ornamental lamp-stands, porcelain, glass, toys, textiles, clothing and artificial fibres. It is a one-to-one relationship, except in the case of the first two lines where it is one-to-four.4/

Another instrument in this group is manufacturing programmes - which in legal terms consist in an agreement between the Secretariat for Industry and Trade and companies - which have been promoted by the Secretariat for Industry and Trade since 1965. One of its goals is to bring about the vertical integration of industry. As concerns export promotion, in some cases it is stipulated that if a minimum of 40 per cent of domestic inputs is achieved, the further requirements may be met - i.e., offset - with exports. It is found in various branches that the use of this instrument gives greater

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1/ Cf. G.K. Helleiner, International Trade and Economic Development (Penguin 1972), p. 108.

2/ Cf. David Ibarra, "Mercado, desarrollo y política económica" in El perfil de México en 1980, Siglo XXI, Mexico 1970, p. 163.

3/ La política industrial en el desarrollo de México, op. cit., August 1971, p. 85.

4/ Cf. Industrial Protection in Mexico on Evaluation, (UNIDO/TCA/310-29V), 1974.

/priority to

priority to export promotion than to the extension of integration, perhaps because of the greater difficulty involved in attaining the latter objective.

The agreement governing these manufacturing programmes includes acceptance by the companies of official regulations on quality, foreign investment and the transfer of technology. Table 53 gives the details of the manufacturing programmes authorized and underway at the time of writing, as well as the value of exports in 1975. The exports of the motor-vehicle industry are particularly striking.

When the programme was established in 1970 the companies belonging to the final motor-vehicle industry were to offset gradually their imports of parts corresponding to their basic production quotas through exports of motor-vehicle parts manufactured in the country.1/

The amount to be offset in this way was to be 5 per cent of the value of imports intended for the "basic quota" in 1970 and 15 per cent in 1971; the remaining 85 per cent was to be offset through increasing annual percentages which would be fixed in good time by the Secretary for Industry and Trade. The percentage fixed for 1972 was 20 per cent. The decree-law of 22 October 1972 provided the following (Article 11);2/ companies shall offset with net foreign exchange generated by exports of motor-vehicle products the value of the imports for their basic quota, according to the following timetable and in the following proportions:

Year	Percentage
1973	30
1974	40
1975	50
1976	60

1/ See also chapter III, section 3 of this study.

2/ Héctor Vásquez Tercero, Una década de política sobre industria automotriz. Bases para una nueva política, Editorial Tecnos, Mexico City, 1975, pp. 41/42.

/Table 53

Table 53

MEXICO: MANUFACTURING PROGRAMMES LINKED TO THE EXPORT PROGRAMMES AUTHORIZED BY THE SECRETARIA DE INDUSTRIA Y COMERCIO FROM JANUARY 1974 TO MAY 1976

	Number of programes		Value of exports for 1975	National inputs (%) a/
	Authorized	In operation		
Total	94	73	2 260.6	
Machinery and equipment	43	35	153.1	53.1
Electrical and electronic goods	24	20	156.7	60.9
Metal goods	24	18	10.9	57.3
Motor vehicles	3	-	1 939.9b/	71.2

Source: SIC, Dirección General de Industrias.

a/ Averages of the authorized programmes.

b/ Includes the net value generated by exports made by companies of the final industry.

/In 1975

In 1975 the Secretary for Industry and Trade established the annual percentages in such a way that 100 per cent of the value of the basic quota will be offset in the year 1979. In exceptional cases, the Secretary for Industry and Trade can alter the above timetable and percentages taking into account national interests and the capital structure of companies.

Another aspect of the manufacturing programmes is the "extra production quotas for export". In practice, this amounts to a bonus in the form of higher production quotas for exports of motor-vehicle products on the basis of one peso (domestic currency) of additional imports for each peso of exports. This policy is regulated in the following way:1/

"Article 12. The companies of the final industry which export motor-vehicle products may import additional material for the manufacture of motor vehicles beyond the amount of their basic quota. The value of these imports shall be equivalent to the net foreign exchange earned. The exports may include products manufactured either by the final company itself or by manufactures of motor-vehicle parts, if in the latter case the sales have been conducted or arranged by the former."

The bonus for export has been the method most frequently used to increase vehicle production quotas above the "basic quotas". The "extra quotas" for exports has represented increasingly large percentages of the total of authorized production quotas: 11.7, 18.1, 30.3, 35.2, 39.0, 43.2 and 48.4, respectively, from 1969 to 1975.2/

In this study we have emphasized the provisions directly linked to exports. However, in the complex tissue of regulations governing the motor-vehicle industry other provisions also tend to promote greater domestic integration, such as, for example, Article 13 of the above mentioned decree-law.

1/ Decree-law of 22 October 1972.

2/ A decade of policy on the motor-vehicle industry, op. cit.

/Besides the

Besides the programme for the motor-vehicle industry, other programmes with an export slant are the following:

(i) Industrial caterpillar tractors. In accordance with the decree-law of 7 April 1972, the companies undertake to offset the value of their imports through exports over a period of four years. No exports have been made for the time being since production began only last year;

(ii) Manufacture of photocopying machines. The minimum value of exports companies must undertake, according to the agreement of 22 April 1976, is as follows: for the xerographic system, 33 per cent of their production; for the electrostatic system, 25 per cent of production;

(iii) Manufacture of milking machinery. In order to promote exports, authorization has been given to import one-fifth of the amount of exports of complementary equipment or component parts of milking-rooms produced and one-quarter of exports of milking equipment.

The system of manufacturing programmes - particularly in the case of the motor-vehicle industry - has come under hard criticism because the question has been raised whether the results obtained are really positive or, on the contrary, have only produced a net outflow of foreign exchange because of the direct and indirect import needs they involve; in addition, the domestic input coefficients only take into account the direct needs. The answer to these comments is that the basic principles of the system should not be confused with its practical application. It seems most suitable to fix obligatory quotas for industrial exports and link them to the demand for imports. This is particularly true in the case of transnational corporations, where such instruments are in general more efficient than those which act on prices, since costs are not easy to determine and market distribution is based on a global policy which it would be difficult to modify by means of a fiscal or credit incentive. This does not mean that an effort should not be made to determine import needs more thoroughly in order to bring about a better vertical integration of the industry and to take other steps for the same purpose (such as the production of a smaller range of models).

/Over the

Over the last 12 months, approximately, the manufacturing programmes have been extended so that practically all the companies which had to obtain import permits have also been included in the system of manufacturing programmes, with part of their sales intended for the external market.

Inasmuch as the country's specific situation - its long border with the United States - creates difficulties in the use of tariffs (one example is that United States products may enter the country through second-hand sales, articles of different qualities, etc.), a principle of symmetry also creates problems for the use of incentives alone; from the fiscal standpoint, the counterpart to finance them is lacking. Furthermore, the effective protection is greater than that stemming from tariffs, so that the incentives would also have to be increased. On the whole it would seem that the export programmes have been efficient in attaining their objectives, and that their implementation is a tool which should facilitate the development of programming for the sector.

Due to the administrative problems we have mentioned, it is not considered possible to extend the programmes to the entire industrial sector, but only to some strategic sectors. They should continue to be improved, so that the desired equilibrium between exports and imports should also include indirect inputs (not taken into account at the earlier stage) and, gradually, imported capital goods.

5. Institutional measures

Additional measures

Among the institutions with powers in the field of export promotion which cannot be included among the above instruments, the Instituto Mexicano de Comercio Exterior is particularly important. It provides a range of services and support for exports, covering not only the dissemination of Mexican supply and the tapping of external demand but also forms of technical assistance in the organization of production for small companies in order to orient

/them towards

them towards export activities. It does this through State IMCE representatives throughout the country and also through the Comisiones de Fomento de Comercio Exterior, which likewise operate in the entire country.

Besides its specific work in distribution and marketing,1/ the Institute provides services in respect of the planning and co-ordination of transport and also to help exporters to obtain the fiscal, financial and administrative facilities provided by the Federal Government.2/

6. General remarks

It may be seen from the above that there are a large number of instruments which are mostly handled by different government bodies. It is therefore not surprising that the suggestion has been made that a single federal body should manage the various aspects of this area of the economy,3/ and particularly the co-ordination of executive powers.4/

Despite the significant progress made, it is still true - as was recently pointed out - that the industrial structure is not oriented towards exports, that many companies in Mexico are not in a position to export and that some of them are not even interested in doing so.5/

1/ See chapter VI.

2/ Cf. the interview with Julio Faesler, Director General of the Instituto Mexicano de Comercio Exterior in Expansión, 29 October 1975, pp. 53 and 54.

3/ Cf. Expansión, op. cit., 29 October 1975 "it has been suggested that IMCE should be turned into a Secretariat for Foreign Trade which should determine and implement the country's overall foreign trade policy, giving particular emphasis to exports. This body or secretariat should establish the size and nature of the fiscal, financial and promotional incentives as well as the levels of tariff protection given to natural industry (p. 21)".

4/ It should be pointed out that since about 1970 the National Association of Importers and Exporters of the Republic of Mexico have insisted on the need for a guiding State body.

5/ See the comments of Armando Dirlain, President of the Asociación Industrial Vallejo in Expansión, op. cit., pp. 11 ff.

/From this

From this standpoint the following measures should be stressed:

(a) The direct contacts with companies, particularly small- and medium-sized ones, initiated by IMCE should be strengthened, to make them aware of existing regulations which favour exports and try to create an export outlook;

(b) Subject to the limitations imposed by the general orientations of industrial policy and the fiscal cost and difficulty of handling a larger number of instruments, the existence of a "package" of incentives is likely to have a psychological impact on potential exporters;

(c) The incentives, particularly those of a tax nature, should aim at greater selectivity, taking into account the different conditions which may obtain in competitive prices, domestic demand, available supply, etc. Although it may be difficult to design a policy of this kind, it would be the most effective to combine a significant impact on exports with a relatively small fiscal cost. The impression that differential incentives were desirable was also obtained from our interviews, since some companies in the metal-working branch said they would have exported even without the CEDIS, while some pharmaceutical, chemical and textile companies emphasized that the CEDIS were inadequate, particularly at the present time;

(d) With regard to credit policy, stronger measures should be taken to favour medium- and small-industry which is basically Mexican-owned and is less export-oriented than large-scale industry, and

(e) The measures of a quantitative nature to which we have repeatedly referred may be another means - at least for incipient exports - of arousing interest in the external market.

These remarks do not mean that there is necessarily a contradiction between domestic sales and exports; a large domestic market facilities exports of goods produced with increasing returns to scale; again, growing progress in the use of technology will

/stimulate production

stimulate production and thus the export of production goods; technological innovation leads to the manufacture of new products and thus provides an export advantage.1/ There is, then, a close link between the industrial structure and the composition of industrial exports. In the final analysis, therefore, promotion policies for industrial exports must be based on clear guidelines for the structure, rate of progress and technological characteristics of the industry as a whole. Furthermore, one of the basic requirements for a regular flow of exports is the existence of an export programme. Such programming can clearly only be adequate if it is part of overall industrial planning, particularly in view of the structural factors mentioned above.

1/ Cf. G.C. Hufbauer, The Impact of National Characteristics and the Technology on the Commodity Composition of Trade in Manufactured Goods, in "The technology factor in international trade" (ed. Raymond Vernon), National Bureau of Economic Research, New York, 1970, pp. 147-149.